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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
TEACHERS' RETIREMENT SYSTEM**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Each A Component Unit of the State of Alaska  
For the Fiscal Year Ended June 30, 1994**



**Tony Knowles, Governor**

Prepared by

Department of Administration  
Division of Retirement and Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

Dugan Petty, Acting Commissioner  
Robert F. Stalnaker, Director

Located at: 333 Willoughby Avenue  
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**PERS/TRS**

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## **INTRODUCTORY SECTION**

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**DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE COMMISSIONER

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135


December 16, 1994

The Honorable Tony Knowles, Governor  
Members of the Alaska State Legislature  
Public Employees' Retirement Board  
Teachers' Retirement Board  
Alaska State Pension Investment Board  
Employers and Members of the Systems

It is my pleasure to submit the Comprehensive Annual Financial Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), each A Component Unit of the State of Alaska.

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1994. It has been prepared on the basis of standards set forth by the Governmental Accounting Standards Board and Financial Accounting Standards Board and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,



Dugan Petty  
Acting Commissioner

DP/dkk  
19/6/GOVLTR.PM5  
Enclosure

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DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

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December 16, 1994

Acting Commissioner Dugan Petty  
Department of Administration  
P. O. Box 110200  
Juneau, AK 99811-0200

Dear Acting Commissioner Petty:

I am pleased to present the Comprehensive Annual Financial Report of the Public Employees' and Teachers' Retirement Systems (Systems), each A Component Unit of the State of Alaska, for the fiscal year ended June 30, 1994. Alaska statutes require the publication of this report, showing the financial condition of the Systems, within six months of the close of the fiscal year.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the Systems. All disclosures necessary to enable the reader to gain an understanding of the Systems' activities have been included.

Although both the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) are presented in this report and share a common administration, they are two separate entities for legal and financial reporting purposes. Therefore, the report is separated into two parts, one for PERS and the other for TRS, with a common Introductory section. Each part contains a Financial section, an Actuarial section, an Investment section, a Statistical section and a Plan Summary section for one of the systems.

The **Introductory** section includes this transmittal letter, along with information about the administrative organization and consulting services used by the Systems. Each **Financial** section contains the independent auditors' report, the financial statements of the System and the required supplementary financial information. The **Actuarial** sections present the results of the latest actuarial valuations. Each **Investment** section provides a review of investment activity for the fiscal year. The **Statistical** sections display statistical tables and graphs of significant data pertaining to each System. A **Plan Summary** section is also included for each System's plan statement.

	PERS			TRS		
	FY94	FY93	FY92	FY94	FY93	FY92
Number of Participating Employers	155	152	150	61	61	62
Number of Active Members	31,364	30,972	30,721	9,489	9,459	9,238
Number of Retired Members	9,643	9,103	8,704	4,134	3,891	3,602
Average Annual Retirement Benefit	\$12,864	\$12,564	\$12,900	\$24,336	\$23,712	\$24,000
Average Annual Retiree Medical Premium	\$3,848	\$3,137	\$2,723	\$3,848	\$3,137	\$2,723

The Alaska State Legislature established the TRS, a cost sharing multiple employer defined benefit retirement system, on July 1, 1955, and the PERS, an agent multiple employer defined benefit retirement system, on January 1, 1961 to attract and retain qualified people into public service employment. The Systems currently provide service, disability, and survivor retirement benefits, as well as a health and life plan.

### ECONOMIC CONDITION AND OUTLOOK

After three years of moderate recovery, the U.S. economy surprised Wall Street experts with a second quarter surge of 6.4% in the Gross Domestic Product (GDP) growth rate. The economy averaged 4% for the year despite a harsh winter and natural disasters that disrupted the economic performance in important regions of the country.

The job picture also improved during fiscal year 1994. An average of over 200,000 new jobs each month helped lower the nation's unemployment rate from 6.7% to 6.0% at the end of the fiscal year.

During the fiscal year, Federal Reserve Chairman Alan Greenspan continued to stress the need to end the accommodative monetary policy. Greenspan cited the Federal Reserve Bank's mandate to maintain price stability and reaffirmed the importance of taming inflation while it was still manageable. During the year, officials at the Federal Reserve Bank noticed the persistent strength of the economy and its diminishing spare capacity. They believed sustained GDP growth above 2.5% could generate price pressures. Officials at the Federal Reserve Bank considered the 4% average GDP growth rate in fiscal year 1994 as a catalyst for future inflation. Historical inflation indicators like Producer Price Index (PPI) and Consumer Price Index (CPI) are not reliable predictors of future inflation. Instead, the Federal Reserve Bank relies on forward looking inflation indicators. Chairman Greenspan continued to stress the importance of these indicators in formulating the Federal Reserve's monetary policy.

In his February Humphrey-Hawkins testimony before the U.S. Congress, Chairman Greenspan explained that commodity prices and especially the price of gold are key indicators for future inflation expectations. During the year, the Knight Ridder Commodity Research Board Index jumped from 210 to 230, an increase of 9.5%, reflecting a heightened concern about future inflation. Additionally, the price of gold shot up from the \$360 per ounce level and closed out the year at \$393 per ounce.

The economy closed out the year with two pressing questions. The first one was "Will the economy continue its strong growth in fiscal year 1995?" The second question was "Will inflation surge in fiscal year 1995?" Most economists predicted the economy would maintain the momentum and achieve some additional growth during the first half of fiscal year 1995.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

It has been a year of challenges for the Systems. One of the greatest challenges has been devoting substantial effort to the implementation of the new Combined Retirement Systems' (CRS) automated data processing system while, at the same time, providing our employee and employer members with the most effective and efficient services possible.

Considerable progress was made on the CRS project during FY94. We are well into the testing phase, with a scheduled implementation date of September 1995 for the active modules and January 1996 for the retiree modules. This system will consolidate data from three existing data processing systems, one of which has been in operation for over twenty years, and several PC and manual subsystems. It will enhance the services we provide to our membership, as well as minimize the impact of continuing increases in system membership.

The Systems continue to be committed to providing a wide range of services to the employee and employer members, despite the difficulties inherent in communicating with a membership spread over an area one-fifth the size of the contiguous United States. Retirement specialists made 25 counseling trips contacting 114 employers and counseling approximately 2,500 members. Most counseling trips are by plane rather than by car since the majority of communities in Alaska are not connected by a road system. In addition, over 51,000 calls were received and approximately 8,500 members were counseled by walking into our two offices.

Due to a 3.7% increase in the Anchorage CPI, 9,752 members received a Post Retirement Pension Adjustment (PRPA) cost of living increase on July 1, 1993.

## FINANCIAL INFORMATION

Management of the Systems is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Systems are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

### Fund Balances

The market value of net assets available for benefits for FY 94 and FY 93 for both Systems are shown for comparative purposes.

	Millions		Increase	
	1994	1993	Amount	Percent
Public Employees' Retirement System	\$4,177.0	4,007.9	169.1	4.2%
Teachers' Retirement System	2,351.7	2,306.5	45.2	2.0

## Revenues

The revenues needed to finance retirement and other member benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. These income sources for the years ended June 30, 1994, and 1993 are shown as follows:

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	1994	1993	Amt	%	1994	1993	Amt	%
Employee Contributions	\$ 82.5	81.9	.6	0.7%	\$ 47.9	46.5	1.4	3.0%
Employer Contributions	153.3	141.3	12.0	8.5	60.5	58.1	2.4	4.1
Investment and Other Income	112.1	493.3	(381.2)	(77.3)	63.2	283.6	(220.4)	(77.7)
<b>Total Revenues</b>	<b>\$347.9</b>	<b>716.5</b>	<b>(368.6)</b>	<b>(51.4)%</b>	<b>\$171.6</b>	<b>388.2</b>	<b>(216.6)</b>	<b>(55.8)%</b>

## Expenses

The primary expense of a retirement system is the payment of benefits. The total expenses are comprised of these recurring benefit payments, along with refunds of contributions to terminated employees and the cost of administering the Systems. The expenses for the years 1994 and 1993 are reflected below:

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	1994	1993	Amt	%	1994	1993	Amt	%
Benefits	\$157.9	141.9	16.0	11.3%	\$116.5	104.8	11.7	11.2%
Refunds	9.6	11.5	(1.9)	(16.5)	2.2	2.5	(.3)	(12.0)
Administration	11.3	9.3	2.0	21.5	7.7	6.4	1.3	20.3
<b>Total Expenses</b>	<b>\$178.8</b>	<b>162.7</b>	<b>16.1</b>	<b>9.9%</b>	<b>\$126.4</b>	<b>113.7</b>	<b>12.7</b>	<b>11.2%</b>

## FUNDING

The overall objective in the funding of any retirement system is to accumulate sufficient funds to pay current and future benefit payments. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Also, a high level of funding gives the members a greater degree of assurance that pension benefits are secure.

A common measure of the strength of a pension system is to express the assets as a percentage of total liabilities, known as the funding ratio. Actuarial valuations to determine the current funding ratios and calculate future funding requirements for both Systems are performed every year. The latest valuations were conducted as of June 30, 1993. The funding ratios, as of that date, were 95.4% for PERS and 93.1% for TRS. This is an increase of 4.2% and 3.4% respectively. These funding ratios are considered to be very good, particularly since medical premiums are prefunded and as such, are included in the accrued liabilities, which is unusual for state retirement systems.

Although the historical level of funding for the Systems is very good, constant effort continues to be directed at improving funding levels, thereby assuring the members of financially sound retirement systems.

## **INVESTMENTS**

The total market value of the Systems' assets was over \$6.5 billion at the end of the fiscal year. The asset allocation of the Systems is 39% in domestic equity, 9% in international equity, 49% in fixed income, and 3% in real estate.

The Systems returned an average of 2.7% during the fiscal year. The annualized return for three and five years was 9.35% and 9.05%, respectively.

Asset allocation is reviewed on an annual basis. This rigorous review is done to ensure that expected returns are achieved within accepted risk tolerance levels. The analysis of asset allocation for fiscal year 1994 indicated that no significant changes were necessary.

## **OTHER INFORMATION**

### **Independent Audit**

Annual audits of the Systems were completed by the independent accounting firm of KPMG Peat Marwick. The audits were conducted in accordance with generally accepted auditing standards. The auditor's opinion was unqualified for both Systems for the year ended June 30, 1994.

### **Awards**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the PERS and TRS for their comprehensive annual financial report for the year ended June 30, 1993. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the first time the Systems had applied for the award.

In order to be awarded a Certificate of Achievement, the Systems must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff. It is intended to provide comprehensive and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

The report is being mailed to all employer members of the Systems. They form the link between the Systems and the membership. Their cooperation contributes significantly to the success of the Systems. Hopefully, the employers and their employees will find this report both informative and helpful.

I would like to take this opportunity to express my appreciation to the Boards, the staff and to the many people who have worked so diligently to assure the successful operation and financial soundness of the Systems.

Respectfully submitted,



Robert F. Stalnaker  
Director

RFS/sb  
19/6/AFR94/AFR94ltr.pm5  
Enclosure



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alaska Public Employees' Retirement System/Teachers' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1993

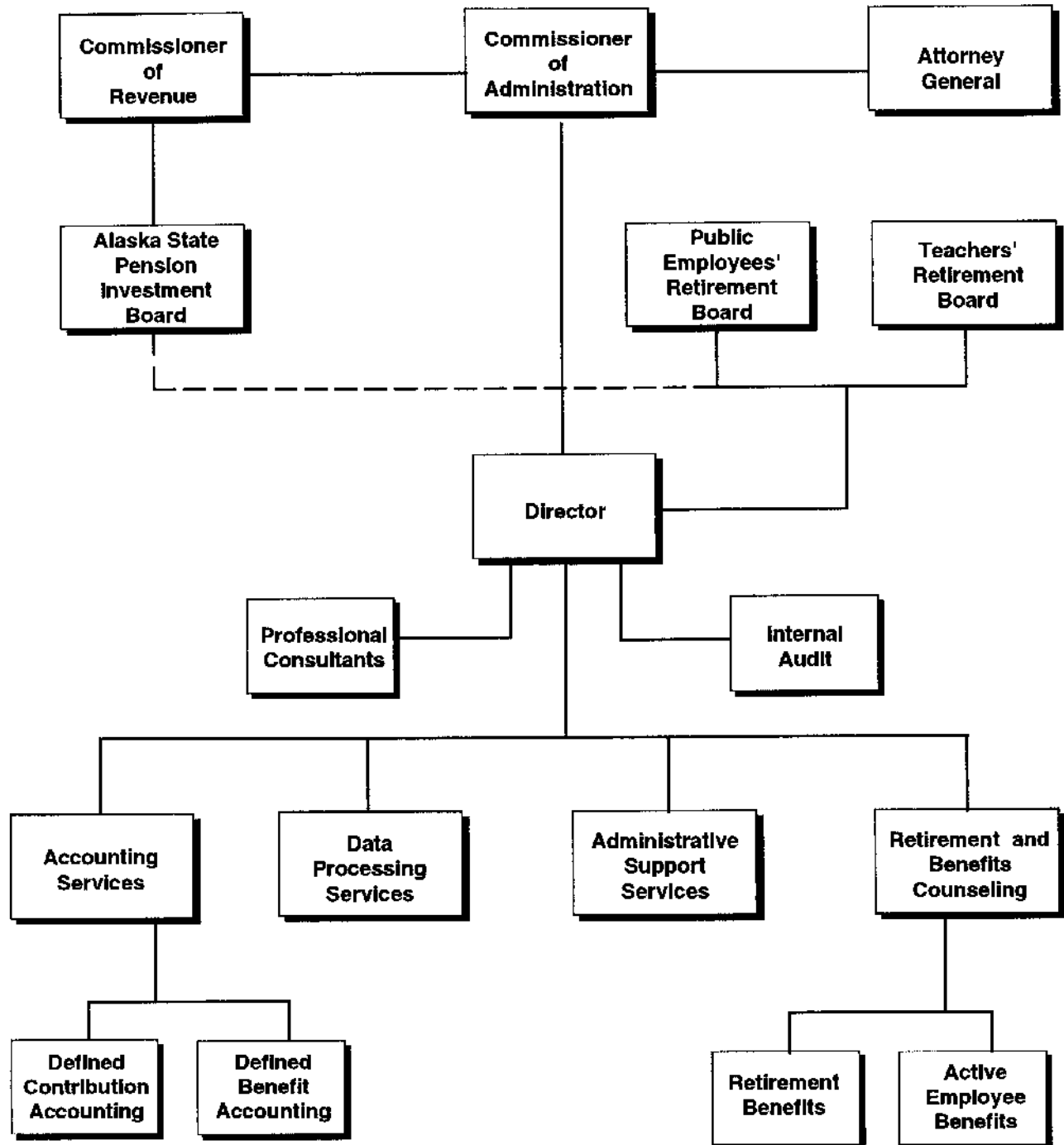
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## ORGANIZATIONAL CHART



## ADMINISTRATIVE STAFF

### Director

Robert F. Stalnaker

**Accounting Services Manager**  
Anselm Staack

**Retirement and Benefits Counseling Manager**  
Janet Parker

**Defined Benefit Accounting Supervisor**  
Jerome J. Walkush

**Retirement Benefits Supervisor**  
Willard "Bill" Church

**Defined Contribution Accounting Supervisor**  
David Duntley

**Active Employee Benefits Supervisor**  
Lisa Tourtellot

**Data Processing Services Manager**  
William "Chuck" Greeson

**Administrative Support Services Manager**  
David Thomson

**Internal Auditor**  
Katherine "Kay" Gouyton

## PROFESSIONAL CONSULTANTS

**Actuary Consultant**  
William M. Mercer, Incorporated  
*Seattle, Washington*

**Legal Counsel**  
John Gaguine  
Assistant Attorney General  
*Juneau, Alaska*

**Independent Auditors**  
KPMG Peat Marwick  
*Anchorage, Alaska*

**Legal Counsel - Retirement Boards**  
Robert Johnson  
Attorney  
*Anchorage, Alaska*

**Benefits Consultant**  
The Wyatt Company  
*Seattle, Washington*

**Consulting Physician**  
Mike Franklin, M.D.  
*Juneau, Alaska*

**Health Insurance Carrier**  
Aetna Life Insurance Company  
*Seattle, Washington*

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# **PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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## PUBLIC EMPLOYEES' RETIREMENT BOARD



**James "Pat" Wellington, Chair**  
Term Expires: 4/5/96



**Judge Seaborn J. Buckalew, Vice Chair**  
Term Expires: 6/20/96



**Gary P. Bader**  
Term Expires: 6/20/98



**Mary A. Notar**  
Term Expires: 4/5/96



**Peter Hallgren**  
Term Expires: 6/20/00

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**PERS**

**FINANCIAL SECTION**

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**KPMG Peat Marwick LLP**

601 West Fifth Avenue  
Suite 700  
Anchorage, AK 99501-2258

**Independent Auditors' Report**

Division of Retirement and Benefits and  
Members of the Alaska Public Employees' Retirement Board  
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Public Employees' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 1994 and 1993, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Public Employees' Retirement System, A Component Unit of the State of Alaska, as of June 30, 1994 and 1993, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 22, 1994

*KPMG Peat Marwick LLP*



Member Firm of  
Klynveld Peat Marwick Goerdeler

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Statements of Net Assets Available for Plan Benefits  
(000s omitted)**

**June 30, 1994 and 1993**

	1994	1993
<b>Assets:</b>		
Investments, at market value:		
United States Government debt	\$ 943,018	1,003,965
Federal agency debt	57,493	61,275
Corporate bonds, notes and debentures	727,399	840,910
Commercial paper	164,342	99,859
Other dollar denominated securities	124,768	-
Domestic equity pool	1,593,533	1,540,814
International equity pool	360,726	288,175
Emerging markets equity pool	36,247	-
Real estate equities	<u>116,089</u>	<u>113,438</u>
Total investments	<u>4,123,615</u>	<u>3,948,436</u>
 Loans and mortgages, at market value, net of allowance for loan losses of \$2,152 in 1994 and \$2,387 in 1993	 <u>5,664</u>	 <u>8,368</u>
 Receivables:		
Contributions	13,492	12,433
Retirement incentive program	90	2,399
Accrued interest and dividends	39,202	36,415
Other accounts receivable	<u>20</u>	<u>20</u>
Total receivables	<u>52,804</u>	<u>51,267</u>
 Cash and cash equivalents	 <u>1,610</u>	 <u>5,694</u>
Total assets	<u>4,183,693</u>	<u>4,013,765</u>
 Liabilities:		
Accrued expenses	6,533	2,959
Due to State of Alaska General Fund	63	2,471
Commerce settlement liability	<u>84</u>	<u>428</u>
Total liabilities	<u>6,680</u>	<u>5,858</u>
 Net assets available for plan benefits	 <u><u>\$ 4,177,013</u></u>	 <u><u>4,007,907</u></u>

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Statements of Changes in Net Assets Available for Plan Benefits  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

Additions:	1994	1993
Investment income:		
Net unrealized appreciation (depreciation) in market value of investments:		
Investments measured by quoted market values in an active market	\$ (207,271)	105,691
Investments measured by net realizable value as determined by management or other methods	158	(16,152)
Net unrealized appreciation (depreciation) in market value of investments	(207,113)	89,539
Interest	148,643	145,630
Dividends	58,831	50,986
Net realized gains on sales	111,508	201,206
Total investment income before recoveries on loans and mortgages	111,869	487,361
Net mortgage loan recoveries	192	5,918
Net investment income	112,061	493,279
Contributions:		
Employers	153,302	141,385
Employees	82,503	81,889
Retirement incentive program - employers	(17)	(17)
Total contributions	235,788	223,257
Other	32	6
Total additions	347,881	716,542
Deductions:		
Benefits paid:		
Retirement	121,867	114,060
Medical	36,046	27,879
Total benefits paid	157,913	141,939
Refunds to terminated employees	9,584	11,522
Administrative expenses	11,278	9,278
Total deductions	178,775	162,739
Net increase	169,106	553,803
Net assets available for plan benefits at beginning of year	4,007,907	3,454,104
Net assets available for plan benefits at end of year	\$ 4,177,013	4,007,907

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

**June 30, 1994 and 1993**

**(1) Description**

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General**

The Plan is the administrator of a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 1994, the number of participating local government employers and public organizations including the State of Alaska was:

State of Alaska	1
Municipalities	78
School districts	52
Other	<u>24</u>
Total employers	<u>155</u>

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and police and fire department employees covered by the Plan. At June 30, 1993, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	<u>12,675</u>
Current employees:	
General	28,509
Police and fire	<u>2,463</u>
	<u>30,972</u>
	<u>43,647</u>
Current employees:	
Vested:	
General	15,336
Police and fire	1,907
Nonvested:	
General	13,173
Police and fire	<u>556</u>
	<u>30,972</u>

(Continued)

**STATE OF ALASKA  
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**Pension Benefits**

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based upon the employee's three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of ten years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of ten years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age sixty-five by paying premiums.

**Death Benefits**

If an active employee dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the employee's salary. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive the monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of death and the credited service, including service that would have accrued if the employee had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(s).

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**Disability Benefits**

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the employee's salary at the time of the disability. The nonoccupational disability benefit is based on the employee's service and salary at the time of disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

**Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

**(2) Summary of Significant Accounting Policies**

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

**Valuation of Investments**

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1994, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio.

Loans and mortgages include \$2,286 and \$4,348 for 1994 and 1993, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

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During fiscal year 1993, mortgage loans with a principal balance of \$56,636 were sold through a competitive sale. Proceeds from the sale were \$55,007, resulting in a decrease in the previously recognized allowance for loan losses of \$1,619. During fiscal year 1994, no mortgage loans were sold.

**Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

**Reclassifications**

Certain amounts have been reclassified to conform with the current year presentation.

**(3) Deposits and Investments**

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1994, the Plan's deposits and investments are categorized as follows:

**Deposits**

Category 1 - Insured or collateralized with securities held by the State or its custodian in the Plan's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the Plan's name.

Category 3 - Uncollateralized.

**Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the Plan's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

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Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Plan's name:

	Category			Market value and carrying value
	1	2	3	
Deposits - cash and cash equivalents and undivided interest in a State of Alaska investment pool - short-term investment pool \$	1,610	-	-	1,610
Investments categorized:				
United States Government debt	943,018	-	-	943,018
Federal agency debt	57,493	-	-	57,493
Corporate bonds, notes and debentures	727,399	-	-	727,399
Commercial paper	164,342	-	-	164,342
Other dollar denominated securities	124,768	-	-	124,768
Total investments categorized	2,017,020	-	-	2,017,020
Total deposits and investments categorized	\$ 2,018,630	-	-	2,018,630
Investments which cannot be categorized as they are an undivided interest in a State of Alaska investment pool:				
Domestic equity pool				1,593,533
International equity pool				360,726
Emerging markets equity pool				36,247
Total investments not categorized				1,990,506
Other investments which cannot be categorized - real estate equities				116,089
Total investments not categorized				2,106,595
				<b>\$ 4,125,225</b>

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During 1994 and 1993, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1994	1993
Investments measured by quoted market values in an active market:		
United States Government debt	\$ (95,316)	65,550
Federal agency debt	(4,051)	3,263
Mortgage backed federal securities	-	(87)
Corporate bonds	(76,500)	42,787
Commercial paper	14	(27)
Other dollar denominated securities	(5,314)	-
Domestic equity pool	(56,863)	(14,540)
International equity pool	29,812	8,745
Emerging market equity pool	947	-
Investments measured by net realizable value as determined by management or other method:		
Real estate equities	158	(7,491)
Loans and mortgages	192	(8,661)
	<u>\$ (206,921)</u>	<u>89,539</u>

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The cost, market and carrying values of the Plan's investments at June 30, 1994 and 1993 are as follows:

	Cost	Market	Carrying value
<b>1994:</b>			
United States Government debt	\$ 884,568	943,018	943,018
Federal agency debt	56,611	57,493	57,493
Corporate bonds, notes and debentures	712,380	727,399	727,399
Commercial paper	164,356	164,342	164,342
Other dollar denominated securities	130,082	124,768	124,768
Domestic equity pool	1,493,641	1,593,533	1,593,533
International equity pool	325,978	360,726	360,726
Emerging markets equity pool	35,300	36,247	36,247
Real estate equities	157,657	116,089	116,089
Loans and mortgages, net of allowance for loan losses of \$2,152	<u>5,664</u>	<u>5,664</u>	<u>5,664</u>
	<u><b>\$ 3,966,237</b></u>	<u><b>4,129,279</b></u>	<u><b>4,129,279</b></u>
<b>1993:</b>			
United States Government debt	\$ 850,199	1,003,965	1,003,965
Federal agency debt	56,342	61,275	61,275
Corporate bonds, notes and debentures	749,392	840,910	840,910
Commercial paper	99,887	99,859	99,859
Domestic equity pool	1,384,059	1,540,814	1,540,814
International equity pool	283,239	288,175	288,175
Real estate equities	155,164	113,438	113,438
Loans and mortgages, net of allowance for loan losses of \$2,387	<u>8,368</u>	<u>8,368</u>	<u>8,368</u>
	<u><b>\$ 3,586,650</b></u>	<u><b>3,956,804</b></u>	<u><b>3,956,804</b></u>

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The Alaska State Pension Investment Board has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. Prior to July 1, 1993, the Commissioner of Revenue had the statutory authority to invest the monies of the Plan. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

**(4) Other Dollar Denominated Securities**

Securities included in this asset category include Eurodollar, "Yankee" and Supranational Bonds, which are denominated in U.S. dollars. Yankee Bonds are issued by foreign-domiciled issuers who register with the Securities and Exchange Commission (SEC) and are underwritten by a U.S. syndicate for delivery in the United States. Eurodollar Bonds are issued by both U.S. and foreign government/corporate entities and are not registered with the SEC. Supranational Bonds are issued by international organizations that are not domiciled in a specific country. At June 30, 1994, holdings of those securities by the Plan include:

Eurodollar corporate bonds	\$ 36,380
Eurodollar government bonds	13,685
Yankee corporate bonds	24,103
Yankee government bonds	48,539
Supranational bonds	<u>2,061</u>
	<b><u>\$ 124,768</u></b>

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**5) Pooled Investments**

**Domestic Equity Pool**

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of other State funds to form a domestic equity pool. The activity and the June 30, 1994 and 1993 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1994 and 1993, the Plan's investment in the domestic equity pool is comprised of the following:

	1994	1993
Marketable securities, at market	\$ 1,509,607	1,442,896
Interest and dividends receivable	5,571	5,297
Cash and cash equivalents	<u>78,355</u>	<u>92,621</u>
	<u><b>\$ 1,593,533</b></u>	<u><b>1,540,814</b></u>

**International Equity Pool**

The Plan, along with three other State retirement systems, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses, and income received are allocated monthly to the four participating funds on a pro rata ownership basis.

The international equity pool at June 30, 1994 and 1993 is comprised of the following:

	1994	1993
Marketable securities, at market	\$ 344,400	238,177
Interest and dividends receivable	1,146	1,044
Cash and cash equivalents	<u>15,180</u>	<u>48,954</u>
	<u><b>\$ 360,726</b></u>	<u><b>288,175</b></u>

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**Emerging Markets Equity Pool**

The Plan, along with another State retirement system, has formed an emerging markets equity pool, with each retirement system owning shares of the pool. The pool participates in two externally managed commingled investment funds. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries. At June 30, 1994, the Plan's ownership in the pool was \$36,247.

At June 30, 1994 and 1993, the Plan's investment in the short-term investment pool is comprised of the following:

	1994	1993
Repurchase agreement	\$ 1,572	5,443
Cash	<u>38</u>	<u>16</u>
	<u><b>\$ 1,610</b></u>	<u><b>5,459</b></u>

**Short-Term Investment Pool**

The Plan, along with three other State retirement systems, participates in a short-term investment pool formed during 1993. Each participant owns shares in the short-term investment pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term investment pool, comprised of repurchase agreements and cash, are included in cash and cash equivalents. Because the short-term investment pool consists of overnight investments, market value equals cost; therefore, there are no gains and losses and all investment income is from interest. Interest accruals are based on the Plan's pro rata share of the short-term investment pool and are credited to the Plan daily, thereby compounding daily.

Cash and cash equivalents at June 30, 1994 and 1993 are comprised of the following:

	1994	1993
Short-term investment pool	\$ 1,610	5,459
Unsettled investment transactions	<u>-</u>	<u>235</u>
	<u><b>\$ 1,610</b></u>	<u><b>5,694</b></u>

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**(6) Funding Status and Progress**

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 8 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1993 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over a rolling twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male and police/fire members, and set backward four years for females.
- c. Retirement age - retirement rates based on the 1986-1990 actual experience.
- d. Discount rate - 8.75% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation:
 

Year	Per annum
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5
- f. Salary scale - increase for the first five years of employment are as follows:
 

Inflation	5.0%
Productivity	0.5
Merit	<u>1.0</u>
Total	<u>6.5%</u>

Increases thereafter are 5.5%.
- g. Cost of living allowance (domicile in Alaska) - 71% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds - 100% of those employees terminating after age thirty-five with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

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- i. Asset valuation - five-year average ratio of actuarial (reported market value) and amortized cost values of the Plan assets. Prior to June 30, 1992, the actuarial value of the assets equaled the market value of the Plan's assets, except that fixed income investments were carried at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals the market value as reported. Valuation assets cannot be outside of the range of amortized cost and actuarial values.

Turnover and disability assumptions are based upon the 1986-1990 actual experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1993, the unfunded pension benefit obligation was \$117,854, as follows:

Net assets available for benefits as of June 30, 1993, at market	<u>\$ 4,007,907</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,921,570
Current employees:	
Accumulated employee contributions including allocated investment income	550,922
Employer-financed, vested	1,510,853
Employer-financed, nonvested	<u>142,416</u>
Total pension benefit obligation as of June 30, 1993	<u>4,125,761</u>
Unfunded pension benefit obligation as of June 30, 1993	<u><u>\$ 117,854</u></u>

**(7) Actuarial Present Value of Accumulated Plan Benefits**

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

- a. Future salary was not considered.

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- b. Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.
- c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 6 to these financial statements.

At June 30, 1993, the actuarial present value of accumulated Plan benefits was \$3,648,551 as follows:

Retired participants and beneficiaries of deceased participants	\$ 1,472,251
Terminated participants with deferred benefits	449,716
Active participants - vested	1,633,537
Active participants - nonvested	<u>93,047</u>
Actuarial present value of accumulated Plan benefits as of June 30, 1993	<u><b>\$ 3,648,551</b></u>

The change in the actuarial present value of accumulated Plan benefits at June 30, 1993 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1992	\$ 3,124,264
Increase (decrease) attributable to:	
Additional benefits accumulated, including actuarial experience	411,089
Change due to decrease in the discount period	266,659
Estimated benefits paid to participants	<u>(153,461)</u>
Actuarial present value of accumulated Plan benefits as of June 30, 1993	<u><b>\$ 3,648,551</b></u>

## **(8) Contributions**

### **Employee Contributions**

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circum-

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stances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

**Employer Contributions**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability over a rolling twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1994	1993
Employer	\$ 153,302	141,385
Employee	<u>82,503</u>	<u>81,889</u>
	<u><b>\$ 235,805</b></u>	<u><b>223,274</b></u>
Normal costs	174,967	210,943
Amortization of unfunded actuarial accrued liability	<u>60,838</u>	<u>12,331</u>
	<u><b>\$ 235,805</b></u>	<u><b>223,274</b></u>

Actuarial valuations for 1994 and 1993 were performed as of June 30, 1993 and 1992, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in note 6.

**(9) Retirement Incentive Program**

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a retirement incentive program. The program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage

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of their annual compensation for the calendar year in which the employee terminated employment to participate in the program:

Police and fire members	22.50%
Other members	20.25

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

**(10) State of Alaska Plan Data**

The State of Alaska employees who administer the Plan participate in the Plan.

The State of Alaska contributes to the Plan. The State's unaudited payroll for employees covered by the Plan for the year ended June 30, 1994 was \$545,761. Total payroll for the State is not available.

State employees participating in the Plan and Plan benefits are described in note 1.

The State does not have any of its notes, bonds or other financial instruments included in the Plan assets at June 30, 1994.

The Plan's funding status and progress are described in note 6. The total unfunded pension benefit obligation applicable to the State's employees was \$151,412 at June 30, 1993, as follows:

State of Alaska net assets available for benefits as of June 30, 1993, at market	<u>\$ 2,199,329</u>
State of Alaska pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,112,422
Current employees:	
Accumulated employee contributions, including allocated investment income	310,618
Employer-financed, vested	865,172
Employer-financed, nonvested	<u>62,529</u>
Total State of Alaska pension benefit obligation as of June 30, 1993	<u>2,350,741</u>
Unfunded State of Alaska pension benefit obligation as of June 30, 1993	<u>\$ 151,412</u>

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Contributions to the Plan are described in note 8. For the year ended June 30, 1994, the State and State employee contributions were as follows:

State of Alaska	\$ 94,195
State of Alaska employees	<u>43,328</u>
	<u><b>\$ 137,523</b></u>
Normal costs	89,115
Amortization of unfunded actuarial accrued liability	<u>48,408</u>
	<u><b>\$ 137,523</b></u>

Trend information related to the State of Alaska portion of the Plan follows:

Pension benefit obligation year ended June 30	Net assets available for benefits	Pension benefit obligation (PBO)	Net assets available as a percent of PBO	Net assets available in excess (unfunded) of PBO	Unaudited annual covered payroll	Unfunded pension benefit obligation as a percent of annual covered payroll
1987	\$ 1,159,209	1,142,446	101.47%	\$ 16,763	N/A	N/A
1988	1,172,156	1,315,532	89.10%	(143,376)	N/A	N/A
1989	1,334,159	1,480,070	90.14%	(145,911)	N/A	N/A
1990	1,490,489	1,569,554	94.96%	(79,065)	N/A	N/A
1991	1,630,505	1,924,251	84.73%	(293,746)	556,646	52.77%
1992	1,882,661	2,144,472	87.79%	(261,811)	583,968	44.83%
1993	2,199,329	2,350,741	93.56%	(151,412)	594,143	25.48%

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Pension benefit obligation year ended June 30	Statutory contribution rates			
	State of Alaska		Employees	
	Police and fire participants	Other participants	Police and fire participants	Other participants
1987*	15.74%	11.30%	7.50%	6.75%
1988	13.05%	9.65%	7.50%	6.75%
1989	13.05%	9.65%	7.50%	6.75%
1990	12.53%	10.02%	7.50%	6.75%
1991	14.51%	13.36%	7.50%	6.75%
1992	16.97%	15.64%	7.50%	6.75%
1993	15.45%	14.92%	7.50%	6.75%

\*Prior to January 1, 1987, police and fire participants contributed 5% and other participants contributed 4.25%.

**(11) Historical Trend Information**

Historical trend information for 1985 through 1994 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in

the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type. Information prior to 1985 is unavailable.

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**Required Supplementary Information  
Analysis of Funding Progress  
(000s omitted)**

<b>Pension benefit obli- gation year ended June 30</b>	<b>Net assets available for Plan benefits</b>	<b>Pension benefit obligation</b>	<b>Percen- tage funded</b>	<b>Unfunded (assets in excess of) pension benefit obligation</b>	<b>Annual covered payroll (unaudited)</b>	<b>Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll</b>
1985	\$ 1,295,536	\$ 1,446,672	89.6%	\$ 151,136	\$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	2,010,196	1,905,001	105.5	(105,195)	891,302	(11.8)
1988	2,123,695	2,246,585	94.5	122,888	908,363	13.5
1989	2,452,962	2,563,268	95.7	110,306	912,834	12.1
1990	2,746,555	2,753,518	99.7	6,963	952,070	.7
1991	3,017,541	3,339,145	90.4	321,604	1,027,807	31.3
1992	3,454,104	3,740,882	92.3	286,778	1,083,816	26.5
1993	4,007,907	4,125,761	97.1	117,854	1,135,889	10.4

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the

stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Required Supplementary Information  
Revenues by Source and Expenses by Type  
(000s omitted)**

**Revenues by source**

<b>Year ended June 30</b>	<b>Employee contributions</b>	<b>Employer contributions</b>	<b>Interest, dividends and net realized gains on sales</b>	<b>Unrealized appreciation (depreciation) In market value including pro- vision for losses, recov- eries and other</b>	<b>Total</b>
1985	\$ 39,577	\$ 123,466	\$ 112,261	\$ 117,733	\$ 393,037
1986	42,626	127,727	182,140	159,873	512,366
1987	51,879	103,719	225,792	(27,799)	353,591
1988	66,732	108,767	154,468	(112,755)	217,212
1989	65,104	78,932	194,653	108,088	446,777
1990	69,720	96,418	233,790	17,469	417,397
1991	76,486	132,402	202,888	(823)	410,953
1992	77,674	149,192	282,673	78,450	587,989
1993	81,889	141,368	397,822	95,463	716,542
1994	<u>82,503</u>	<u>153,285</u>	<u>318,982</u>	<u>(206,889)</u>	<u>347,881</u>

**Expense by type**

	<b>Retirement benefits</b>	<b>Medical benefits</b>	<b>Refunds to terminated employees</b>	<b>Administrative expenses</b>	<b>Total</b>
1985	\$ 39,487	\$ 9,350	\$ 9,553	\$ 3,813	\$ 62,203
1986	45,916	9,411	9,165	3,567	68,059
1987	57,473	10,256	10,524	4,985	83,238
1988	73,964	11,376	11,409	6,964	103,713
1989	82,389	18,065	11,188	5,868	117,510
1990	85,301	22,142	11,237	5,124	123,804
1991	99,651	23,332	11,965	5,019	139,967
1992	108,360	23,120	11,901	8,045	151,426
1993	114,060	27,879	11,522	9,278	162,739
1994	<u>121,867</u>	<u>36,046</u>	<u>9,584</u>	<u>11,278</u>	<u>178,775</u>

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

*See accompanying notes to required supplementary information.*



**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Cash Receipts and Disbursements  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

	1994	1993
Cash and cash equivalents at beginning of year	\$ 5,694	<u>10,248</u>
Add cash receipts:		
Contributions:		
Employers	152,368	142,111
Employee	82,377	81,774
Retirement incentive program	2,292	3,870
Investment income from interest and dividends	208,983	193,909
Investment sales and maturities, including realized gains and losses	1,560,854	813,917
Other receipts	<u>32</u>	<u>6</u>
Total cash receipts	<u>2,006,906</u>	<u>1,235,587</u>
Less cash disbursements:		
Investment purchases	1,833,038	1,073,955
Benefit payments	154,304	141,939
Refunds	11,458	10,849
Administrative expenses	9,483	9,269
Other	<u>2,707</u>	<u>4,129</u>
Total cash disbursements	<u>2,010,990</u>	<u>1,240,141</u>
Cash and cash equivalents at end of year	<u>\$ 1,610</u>	<u>5,694</u>

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Administrative Expenses  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

	Division of Retirement and Benefits	Public Employees' Retirement Board	Division of Treasury	Alaska State Pension Investment Board	Totals	
					1994	1993
Personal services:						
Wages	\$ 844	-	427	26	1,297	853
Benefits	500	-	205	11	716	482
Other	<u>3</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>4</u>	<u>2</u>
Total personal services	<u>1,347</u>	<u>-</u>	<u>633</u>	<u>37</u>	<u>2,017</u>	<u>1,337</u>
Travel:						
Transportation	28	7	11	33	79	35
Per diem	20	6	5	16	47	22
Honorarium	-	-	-	3	3	-
Moving	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total travel	<u>48</u>	<u>13</u>	<u>16</u>	<u>52</u>	<u>129</u>	<u>57</u>
Contractual services:						
Management and consulting	-	-	7,925	-	7,925	-
Actuarial and benefits consulting	198	-	-	1	199	193
Data processing	266	-	-	5	271	186
Communications	100	-	3	-	103	124
Legal	47	26	-	-	73	80
Advertising and printing	31	-	117	5	153	70
Other professional services	49	-	-	-	49	60
Medical specialists	40	-	-	-	40	46
Auditing	14	-	-	-	14	14
Repairs and maintenance	10	-	-	-	10	14
Rentals/leases	7	-	-	3	10	6
Transportation	2	-	-	-	2	2
Architectural	-	-	-	-	-	-
Other services	<u>11</u>	<u>-</u>	<u>3</u>	<u>1</u>	<u>15</u>	<u>10</u>
Total contractual services	<u>775</u>	<u>26</u>	<u>8,048</u>	<u>15</u>	<u>8,864</u>	<u>805</u>
Equipment	215	-	19	-	234	59
Supplies	31	-	2	1	34	24
Investment expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,996</u>
Total administrative expenses	<u>\$ 2,416</u>	<u>39</u>	<u>8,718</u>	<u>105</u>	<u>11,278</u>	<u>9,278</u>

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Required Supplementary Information**

**Years ended June 30, 1994, 1993, 1992,  
1991, 1990, 1989, 1988, 1987, 1986 and 1985**

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The assumed rate of interest was lowered to 8.75%. The mortality tables were set forward one year for male members and set backward four years for female members; previously the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 69% to 71% participation.

Effective June 30, 1992, the actuarial value of all assets equals the full market value; previously, fixed income investments were carried at amortized cost.

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**PERS**

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## **ACTUARIAL SECTION**

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WILLIAM M.  
**MERCER**  
INCORPORATED

April 5, 1994

State of Alaska  
Public Employees' Retirement Board  
Department of Administration  
Division of Retirement & Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

Dear Members of the Board:

#### **Actuarial Certification**

The actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 1993 by William M. Mercer, Incorporated. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 1993;
- (2) a determination of the appropriate contribution rate for each employer in the System;
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 1991.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY94 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities increased from 91.2% to 95.4% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

One Union Square Suite 3200  
600 University Street  
Seattle WA 98101 3137

206 292 7000

A Marsh & McLennan Company

**WILLIAM M.  
MERCER**  
INCORPORATED

Public Employees' Retirement Board  
April 5, 1994  
Page 2

There were no significant changes in the actuarial assumptions or methods used in the determination of system assets and liabilities this year. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



Brian R. McGee, FSA  
Principal



Peter L. Godfrey, FIA  
Associate

BRM/JWJ/KMJ/jls



**Public Employees' Retirement System  
Principle Results of the June 30, 1993, Actuarial Valuation**

<b>Funding Status as of June 30:</b>	<b>1992</b>	<b>1993</b>
(a) Valuation Assets*	\$ 3,409,859	\$ 3,936,776
(b) Accrued Liability*		
i) Non-Medical Benefits	2,735,178	2,963,975
ii) Total Benefits (including medical)	3,740,882	4,125,761
(c) Funding Ratio, (a) / (b)		
i) Non-Medical Benefits	124.7%	132.8%
ii) Total Benefits (including medical)	91.2%	95.4%
* In thousands.		

<b>Employer Contribution Rates for Fiscal Year:</b>	<b>1995</b>	<b>1996</b>
(a) Consolidated Rate	10.90%	11.29%
(b) Average Past Service Rate	2.80%	1.53%
(c) Average Total Contribution Rate	13.70%	12.82%

## PERS Actuarial Assumptions and Methods

The assumptions used in the valuation were adopted at the Fall 1991 PERS Board Meeting. The funding method used in the valuation was adopted June 30, 1985. The five-year smoothing method used to determine valuation assets was adopted June 30, 1989.

### Valuation of Liabilities

- A. Actuarial Method** - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over a rolling 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

### B. Actuarial Assumptions -

1. Investment Return      8.75% per year, compounded annually, net of expenses.
2. Salary Scale
 

Inflation	-	5.0%
Productivity	-	0.5%
Merit (first 5 years)	-	1.0%
3. Total Inflation      Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 5% annually.
4. Health Cost Trend
 

FY92	-	12.5%
FY93	-	11.5%
FY94	-	10.5%
FY95	-	9.5%
FY96	-	8.5%
FY97 and later	-	7.5%
5. Mortality      1984 Unisex Pension Mortality Table, set forward one year for male and police/fire members, and set backward four years for female members. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others".

- |                          |   |
|--------------------------|---|
| 6. Turnover              | Based upon the 1986-90 actual total turnover experience. (See Table 1).   |
| 7. Disability            | Incidence rates, based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others". |
| 8. Retirement Age        | Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.   |
| 9. Spouse's Age          | Wives are assumed to be four years younger than husbands.   |
| 10. Dependent Children   | Benefits to dependent children have been valued assuming members who are not single have one dependent child.   |
| 11. Contribution Refunds | 100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.   |
| 12. C.O.L.A.             | Of those benefit recipients who are eligible for the C.O.L.A., 71% are assumed to remain in Alaska and receive the C.O.L.A.   |
| 13. New Entrants         | Growth projections are made for the active PERS population under three scenarios:<br><br>Pessimistic:   1% per year<br>Median:       3% per year<br>Optimistic:   5% per year   |
| 14. Expenses             | Expenses are covered in the investment return assumption.   |

### Valuation of Assets

Based upon the five-year average ratio between actuarial and book values of the System's assets. Prior to June 30, 1992, the actuarial value of assets equalled the market value, except that fixed income investments were carried at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals the full market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside the range of book and actuarial values.

### Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY95, the pre-65 monthly premium is \$382.93 and the post-65 premium is \$133.52, based on an assumed total blended premium of \$279.55. For FY95 the actual blended premium is \$336.05. The FY95 blended premium was provided by the State of Alaska Division of Retirement and Benefits.

**Table 1**  
**Alaska Public Employees' Retirement System**  
**Total Turnover Assumptions**

Select Rates of Turnover During the First 10 Years of Employment				Ultimate Rates of Turnover After the First 10 Years of Employment	
Police and Fire:					
Year of Employment	----- 20-29	Age at Hire 30-39	----- 40+	Age	Rate
1	.22	.18	.10	20-39	.03
2	.19	.13	.10	40+	.01
3	.13	.12	.10		
4	.12	.12	.10		
5	.10	.10	.10		
6	.08	.08	.08		
7	.07	.07	.07		
8	.06	.06	.06		
9	.05	.05	.05		
10	.04	.04	.04		
Others:					
Year of Employment	----- 20-29	Age at Hire 30+	----- 30+	Age	Rate
1	.30		.23	20-29	.065
2	.23		.18	30-34	.060
3	.20		.14	35-44	.055
4	.16		.13	45+	.050
5	.16		.13		
6	.14		.13		
7	.12		.12		
8	.11		.11		
9	.09		.09		
10	.08		.08		

<b>Table 2</b> <b>Alaska Public Employees' Retirement System</b> <b>Disability Rates</b> <b>Annual Rates Per 1,000 Employees</b>		
Age	Police & Fire Rate	"Other" Member Rate
20	.85	.14
21	.87	.14
22	.90	.14
23	.94	.15
24	.98	.15
25	1.03	.15
26	1.08	.15
27	1.13	.15
28	1.19	.16
29	1.25	.16
30	1.31	.16
31	1.37	.17
32	1.43	.17
33	1.44	.25
34	1.48	.34
35	1.55	.44
36	1.65	.53
37	1.78	.64
38	1.94	.75
39	2.13	.87
40	2.35	.99
41	2.60	1.12
42	2.88	1.25
43	3.19	1.39
44	3.53	1.53
45	3.90	1.68
46	4.30	1.84
47	4.73	2.00
48	5.19	2.17
49	5.68	2.34
50	6.20	2.52
51	6.75	2.70
52	7.33	2.89
53	7.94	3.08
54	8.58	3.29
55	9.25	3.49
56	9.95	3.70
57	10.68	3.92
58	11.44	4.14
59	12.23	4.37
60	13.05	4.61
61	13.90	4.84
62	14.78	5.09
63	15.69	5.34
64	16.63	5.60

**Table 3**  
**Alaska Public Employees' Retirement System**  
**Retirement Rates**

Age	Police & Fire Rate	"Other" Member Rate
50	.25	.11
51	.14	.08
52	.14	.08
53	.15	.08
54	.15	.08
55	.30	.19
56	.25	.16
57	.21	.13
58	.21	.12
59	.20	.11
60	.20	.17
61	.40	.14
62	1.00	.21
63	1.00	.22
64	1.00	.22
65	1.00	.31
66	1.00	.61
67 & Up	1.00	1.00

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

Public Employees' Retirement System Schedule of Active Member Valuation Data				
Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Percent Increase In Average Pay
<b>All Others</b>				
June 30, 1993	28,509	\$1,011,864	\$35,493	4.2%
June 30, 1992	28,206	961,054	34,073	2.5%
June 30, 1991	27,307	907,567	33,236	4.6%
June 30, 1990	26,667	846,935	31,760	.6%
June 30, 1989	25,630	808,835	31,558	-4.7%
June 30, 1988	24,349	806,100	33,106	2.4%
June 30, 1987	24,443	790,463	32,339	3.6%
June 30, 1986	25,272	788,555	31,203	4.7%
June 30, 1985	24,776	738,198	29,795	.7%
June 30, 1984	23,437	693,148	29,575	6.5%
<b>Police/Fire</b>				
June 30, 1993	2,463	\$124,025	\$50,355	3.2%
June 30, 1992	2,515	122,762	48,812	2.8%
June 30, 1991	2,533	120,240	47,470	9.2%
June 30, 1990	2,419	105,135	43,462	.9%
June 30, 1989	2,414	104,000	43,082	-2.0%
June 30, 1988	2,327	102,265	43,947	1.0%
June 30, 1987	2,319	100,839	43,484	1.5%
June 30, 1986	2,371	101,537	42,825	11.6%
June 30, 1985	2,407	92,381	38,380	1.9%
June 30, 1984	2,366	89,118	37,666	.9%

Public Employees' Retirement System Schedule of Retirants and Beneficiaries Added to and Removed from Rolls								
	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Allowances	Average Annual Allowance
Year Ended	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
All Others								
June 30, 1993	464	\$5,408,670	93	\$4,057,669	8,376	\$96,245,330	1.4%	\$11,491
June 30, 1992	435	8,520,963	116	1,323,560	8,005	94,894,329	8.2%	11,854
June 30, 1991	876	15,277,842	8	85,072	7,686	87,696,926	21.0%	11,410
June 30, 1990	457	5,776,756	94	986,060	6,818	72,504,156	7.1%	10,634
June 30, 1989	352	3,651,450	212	2,225,364	6,455	67,713,460	2.2%	10,490
June 30, 1988	1,014	11,532,405	35	361,515	6,315	66,287,374	20.3%	10,497
June 30, 1987	1,011	14,821,733	31	288,827	5,336	55,116,484	35.8%	10,329
June 30, 1986	416	3,718,750	110	1,029,270	4,356	40,583,578	7.1%	9,317
June 30, 1985	484	7,490,537	102	869,652	4,050	37,894,098	21.2%	9,357
June 30, 1984	365	4,039,978	43	354,535	3,668	31,273,213	13.4%	8,526
Police/Fire								
June 30, 1993	39	\$982,991	11	\$212,565	727	\$18,177,698	4.4%	\$25,004
June 30, 1992	35	1,202,004	8	195,248	699	17,407,272	6.1%	24,903
June 30, 1991	129	3,408,774	4	95,704	672	16,400,516	25.3%	24,406
June 30, 1990	38	907,997	3	71,784	547	13,087,446	6.8%	23,926
June 30, 1989	128	2,686,748	3	74,724	512	12,251,233	27.1%	23,928
June 30, 1988	72	1,991,318	-	-	387	9,639,209	26.0%	24,908
June 30, 1987	96	3,054,160	82	1,720,032	315	7,647,891	21.1%	24,279
June 30, 1986	36	949,954	2	40,482	301	6,313,763	16.8%	20,976
June 30, 1985	77	1,966,581	1	18,093	267	5,404,291	56.4%	20,241
June 30, 1984	16	281,303	4	72,560	191	3,455,803	6.4%	18,093
* Numbers are estimated, and include other internal transfers.								



**Public Employees' Retirement System**  
**Summary of Accrued and Unfunded Accrued Liabilities**

Valuation Date	Aggregate Accrued Liability (000s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL) (000s)	Annual Active Member Payroll (000s)	UAL as a Percent of Annual Active Member Payroll
<b>All Others</b>						
June 30, 1993	\$3,486,322	\$3,326,627	95.4%	\$159,695	\$1,011,864	15.8%
June 30, 1992 <sup>(1)</sup>	3,148,364	2,869,772	91.2%	278,592	961,054	29.0%
June 30, 1991 <sup>(2)</sup>	2,815,819	2,481,018	88.1%	334,801	907,567	36.9%
June 30, 1990	2,331,243	2,266,871	97.2%	64,372	846,935	7.6%
June 30, 1989 <sup>(2)</sup>	2,161,247	1,980,098	91.6%	181,149	808,835	22.4%
June 30, 1988	1,921,949	1,786,648	93.0%	135,301	806,100	16.8%
June 30, 1987	1,621,470	1,615,723	99.6%	5,747	790,463	.7%
June 30, 1986	1,306,937	1,332,956	102.0%	-	788,555	-
June 30, 1985 <sup>(2)(3)</sup>	1,114,997*	1,046,982*	93.9%	68,015	738,198	9.2%
June 30, 1984	950,196	833,537	87.7%	116,659	693,148	16.8%
<b>All Others</b>						
June 30, 1993	\$639,439	\$610,149	95.4%	\$29,290	\$124,025	23.6%
June 30, 1992 <sup>(1)</sup>	592,518	540,087	91.2%	52,431	122,762	42.7%
June 30, 1991 <sup>(2)</sup>	523,326	461,103	88.1%	62,223	120,240	51.7%
June 30, 1990	422,275	410,615	97.2%	11,660	105,135	11.1%
June 30, 1989 <sup>(2)</sup>	402,021	368,325	91.6%	33,696	104,000	32.4%
June 30, 1988	324,634	301,780	93.0%	22,854	102,265	22.3%
June 30, 1987	283,535	282,530	99.6%	1,005	100,839	1.0%
June 30, 1986	249,673	254,643	102.0%	-	101,537	-
June 30, 1985 <sup>(2)(3)</sup>	213,967	201,164	93.9%	12,803	92,381	13.9%
June 30, 1984	175,668	154,101	87.7%	21,567	89,118	24.2%

\* Estimated

<sup>(1)</sup> Change in Asset Valuation Method.

<sup>(2)</sup> Change of Assumptions.

<sup>(3)</sup> Change in Funding Method.

PERS Solvency Test							
Valuation Date	Aggregate Accrued Liability For:			Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)		(1)	(2)	(3)
June 30, 1993	\$551,753	\$1,921,967	\$1,652,041	\$3,936,776	100%	100%	88.6%
June 30, 1992(1)	484,590	1,783,020	1,473,272	3,409,859	100%	100%	77.5%
June 30, 1991(2)	422,656	1,621,590	1,294,899	2,942,121	100%	100%	69.3%
June 30, 1990	380,680	1,285,515	1,087,323	2,677,486	100%	100%	93.0%
June 30, 1989(2)	329,966	1,217,648	1,015,654	2,348,423	100%	100%	78.8%
June 30, 1988	305,483	1,030,048	911,052	2,088,428	100%	100%	82.6%
June 30, 1987	216,504	820,853	867,648	1,898,253	100%	100%	99.2%
June 30, 1986	210,115*	493,724	852,771*	1,587,599	100%	100%	100.0%
June 30, 1985(2)(3)	169,433	466,222	693,574*	1,248,146	100%	100%	88.3%
June 30, 1984	125,534*	410,235	590,095*	987,638	100%	100%	76.6%
(1) Change in Asset Valuation Method.							
(2) Change of Assumptions.							
(3) Change in Funding Method.							
* Estimated							

PERS Analysis of Financial Experience					
Change in Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Contribution Rate During Fiscal Year				
	93	92	91	90	89
(1) Health Experience	-	-	-3.17%	-1.42%	2.29%
(2) Salary Experience	-.21%	-.56%	.26%	-.07%	-.02%
(3) Investment Experience	-1.41%	-.16%	.48%	-.67%	-.39%
(4) Demographic Experience	.74%	1.58%	2.02%	.68%	.22%
(5) Miscellaneous	—	—	—	.86%	.10%
(6) Gain (or Loss) During Year From Experience, (1) + (2) + (3) + (4) + (5)	-.88%	.86%	-.41%	-.62%	2.20%
<b>Non-recurring Items</b>					
(7) Asset Valuation Method	-	-.88%	-	-	-
(8) Assumption Changes	-	-	.55%	-	-
(9) Plan Changes	—	—	—	—	—
Composite Gain (or Loss) During Year, (6) + (7) + (8) + (9)	-.88%	-.02%	.14%	-.62%	2.20%



**PERS**

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## **INVESTMENT SECTION**

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## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400  
JUNEAU, ALASKA 99811-0400  
TELEPHONE: (907) 465-2300  
FACSIMILE: (907) 465-2389

### Message from the Commissioner of Revenue

The Alaska State Pension Investment Board (ASPIB) assumed fiduciary responsibility for the PERS Investment Fund on July 1, 1993. During the past fiscal year, a close working relationship has developed between ASPIB and the Department of Revenue Treasury Division, which provides the Board with staff support.

There are eight accounting staff members, headed by the Comptroller, who are responsible for accounting and safekeeping of investments, data processing and administrative support. Given the large volume of transactions, the diversity of investments and the many countries involved, this is a tremendous task. The staff has consistently met the challenges encountered as evidenced by the timely and accurate information and financial statements that are prepared for the funds.

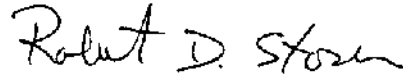
It is recognized by Treasury Division staff that a key to continued success in management of investments lies in automation of information processing. Consequently, the Division has made a substantial commitment to using new computer technology in daily operations and has initiated major changes to the systems used. This is expected to enhance the abilities of staff to meet the ever increasing demands on their time, while at the same time building in flexibility for future changes in investment vehicles and operations.

Portfolio management has a staff of ten. The Chief Investment Officer administers real estate management, externally managed funds, internal fixed income investments and all investment contracts. The fixed income portfolio is managed by a staff of three, who have responsibility for the majority of the fixed income investments. Four people provide oversight of the real estate portfolio, which is managed by several external specialists.

In addition to the Department of Revenue staff working for ASPIB, we also coordinate with the Retirement & Benefits Division, which is located within the Department of Administration. Because the plan administration resides with the Division of Retirement & Benefits, the Director of that office meets regularly with Division of Treasury staff. The Director and the Accounting Services Manager have been instrumental in insuring that this coordinated effort is successful. Treasury staff are responsible for the investment of those funds, so a close working relationship between the two departments is necessary.

The Deputy Commissioner is the chief administrator for ASPIB. Coordination of staff, agenda presentation, and communication flows through that office.

The Department of Revenue staff are extremely pleased to be working for ASPIB. The Board has had to assimilate a tremendous amount of information in a short time. They are deeply committed to protecting the funding status and maintaining a strong portfolio of investments. It is indeed a pleasure to work for them.

A handwritten signature in black ink, reading "Robert D. Storer". The signature is written in a cursive, flowing style.

Robert D. Storer  
Acting Commissioner

## ALASKA STATE PENSION INVESTMENT BOARD



**William A. Corbus**  
**Chair**

Appointed by the Governor



**Gail R. Schubert**  
**Vice Chair**

Appointed by the Governor



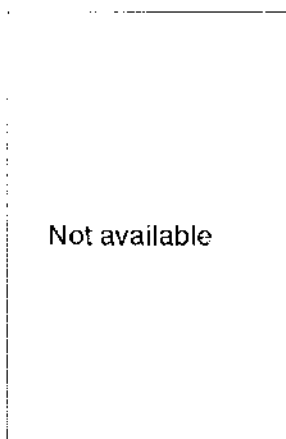
**Gary M. Bader**  
PERS representative



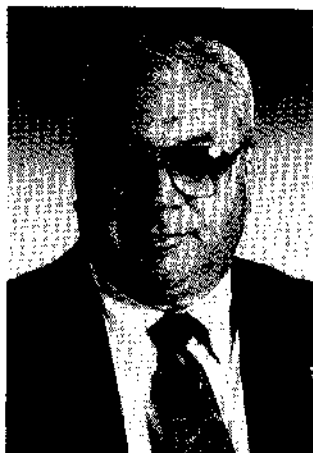
**Ross A. Kinney**  
Appointed by the Governor



**Merritt C. Olson**  
TRS representative



**Robert D. Storer**  
Statutory representative



**J. P. "Pat" Wellington**  
PERS representative



**Dorothy Wells**  
TRS representative

## ORGANIZATION

### S T A F F

**Acting Commissioner**

Robert D. Storer

**Chief Investment Officer**

Robert D. Storer

**Investment Officers**

Michael S. Cheung, CFA, Marketable Debt

Jeff Hassler, Real Estate

**ASPIB Liaison Officer**

Vacant

**Comptroller**

Vacant

**Cash Management**

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**Consultants and Performance Measurement**

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*San Francisco, CA*

The Townsend Group

*Cleveland, OH***Domestic Equity Large Cap**

Ark Asset Management Co., Inc.

*New York, NY*

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*Atlanta, GA*

MacKay-Shields Financial Corporation

*New York, NY*

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*Bryn Mawr, PA***Domestic Equity Small Cap**

Capital Guardian Trust Co.

*Los Angeles, CA*

John McStay Investment Counsel

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The Putnam Companies

*Boston, MA*

RCM Capital Management

*San Francisco, CA***Tactical Asset Allocation**

Wells Fargo Nikko Investment Advisors

*San Francisco, CA***Domestic Equity Index**

State Street Global Advisors

*Boston, MA***Global Equity**

Lazard Freres Asset Management

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Miller, Anderson &amp; Sherrerd

*West Conshohocken, PA***International Equity—EAFE**

J. P. Morgan Investment Management, Inc.

*London, England***International Equity—Europe**

Citibank Global Asset Management

*New York, NY***International Equity—Pacific Basin EX Japan**

G.T. Capital Management

*San Francisco, CA*

Wellington Management Co.

*Boston, MA***International Equity—Emerging Markets**

Capital Guardian Trust Company

*Los Angeles, CA*

J.P. Morgan Investment Management

*New York, NY***Real Estate Management**

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Equitable Real Estate Investment Management

*Irvine, CA*

Hancock Realty Investors, Inc.

*Boston, MA*

JMB Institutional Realty Corporation

*Chicago, IL*

Koll Investment Management

*Newport Beach, CA*

JP Morgan Investment Mgmt. Inc.

*New York, NY*

Sentinel Real Estate Corporation

*New York, NY***Domestic Fixed Income****Treasury Investment Officers**

Robert Storer

Michael Cheung, CFA

John Jenks, CFA

Chris Phillips

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Mark T. Finn—Delta Financial Services, Inc.

Ronald J. Surz—Performance Presentation

Consulting Alliance

Robert A. Haugen—UCLA-Irvine

**Independent Auditors**

KPMG Peat Marwick

*Anchorage, AK***Global Master Custodian**

State Street Bank &amp; Trust Co.

*Boston, MA***Legal Counsel**

Wohlforth, Argetsinger, Johnson &amp; Brecht

*Anchorage, AK*



## The U.S. Economy

After three years of moderate recovery, the U.S. economy surprised Wall Street experts with a second quarter surge of 6.7% in the Gross Domestic Product (GDP) growth rate. The economy averaged 4% for the year despite a harsh winter and natural disasters that disrupted the economic performance in important regions of the country.

The job picture also improved during fiscal year 1994. An average of over 200,000 new jobs each month helped lower the nation's unemployment rate from 6.7% to 6.0% at the end of the fiscal year.

Most economic indicators also reflected strength in the U.S. economy. On a monthly basis, the Federal Reserve Board releases the industrial production index, which measures production by manufacturing, mining, and utility companies. Among these three components, manufacturing represents roughly 85% of the total industrial output. The index reported solid growth rates for the year, with the industrial production capacity utilization rate rising from 81% to the year-ending level of 83.4%. For example, the biggest problem for U.S. automobile manufacturers during the year was the struggle to meet strong customer demand. Despite a vigorous economy, inflation remained subdued. The Producer Price Index (PPI), an index of prices received by producers of goods and commodities, provides useful historical information on price pressures at the production level. The index finished the year unchanged. Another measurement that provides information on historical inflation is the Consumer Price Index (CPI). This index measures prices for a fixed basket of goods and services that consumers regularly buy. CPI closed out the year with a small gain of only 2.5%. These benign inflation numbers did not prevent the Federal Reserve Bank from raising interest rates for the first time in five years.

During the fiscal year, Federal Reserve Chairman Alan Greenspan continued to stress the need to end the accommodative monetary policy. Greenspan cited the Federal Reserve Bank's mandate to maintain price stability and reaffirmed the importance of

taming inflation while it was still manageable. During the year, officials at the Federal Reserve Bank noticed the persistent strength of the economy and its diminishing spare capacity. They believed sustained GDP growth above 2.5% could generate price pressures. Officials at the Federal Reserve Bank considered the 4% average GDP growth rate in fiscal year 1994 as a catalyst for future inflation. Historical inflation indicators like PPI and CPI are not reliable predictors of future inflation. Instead, the Federal Reserve Bank relies on forward looking inflation indicators. Chairman Greenspan continued to stress the importance of these indicators in formulating the Federal Reserve's monetary policy.

In his February Humphrey-Hawkins testimony before the U.S. Congress, Chairman Greenspan explained that commodity prices and especially the price of gold are key indicators for future inflation expectations. During the year, the Knight Ridder Commodity Research Board Index jumped from 210 to 230, an increase of 9.5%, reflecting a heightened concern about future inflation. Additionally, the price of gold shot up from the \$360 per oz. level and closed out the year at \$393 per oz.

The decline of the U.S. dollar in the international currency market also added incentive for the Federal Reserve Bank to raise interest rates. In the second half of fiscal year 1994, the U.S. dollar lost nearly 10% of its exchange value versus the Deutsche Mark and the Japanese Yen. Most experts believe a weak U.S. dollar will lead to higher import prices and inflation.

After much speculation, the Reserve Bank raised the Federal Funds rate by 0.25% in February. By the end of the fiscal year, it had raised the rate three more times. This represented an increase of 1.25% in the Federal Funds rate and caused an upward shift in short term U.S. Treasury yields.

The Federal Reserve Bank expected the recent interest rate hikes would curb economic activities and inflation expectations. Federal Reserve officials

also hoped to convey the message to investors that the Federal Reserve Bank is determined to maintain price stability.

During the year, there were two events that should counter inflationary pressures. The U.S. Congress passed the North America Free Trade Agreement (NAFTA) during the first half of fiscal year 1994. NAFTA calls for the dismantling of trade barriers and tariffs between the United States, Mexico, and Canada. Another set of trade barriers may fall if the participating countries ratify the Uruguay round of the General Agreement on Trade and Tariffs (GATT). Over one hundred countries favor the agreement, which is also supported by the Clinton Administration. The U.S. Congress is expected to vote on

GATT this fall. The lowering of barriers to entry and transaction costs equates to a tax cut for the export sector. Eventually, increased productivity and efficient allocation of resources will be achieved. Ultimately, free trade means cheaper and better products for consumers.

The economy closed out the year with two pressing questions. The first one was "Will the economy continue its strong growth in fiscal year 1995?" The second question was "Will inflation surge in fiscal year 1995?" Most economists predicted the economy would maintain the momentum and achieve some additional growth during the first half of fiscal year 1995.

## Investment Overview

Fiscal year 1994 was the first year that the Alaska State Pension Investment Board (ASPIB) had fiduciary responsibility for the assets of the Public Employees' Retirement System. The Board's role is to provide responsive and sound investment management oversight of the PERS Fund.

The Trustees of ASPIB engaged the independent consulting firm of Callan Associates, Inc. to provide investment consulting services, asset allocation and performance measurement. Asset allocation is particularly important because studies have shown that the allocation decisions account for over 95% of the returns.

Asset allocation was reviewed at several ASPIB meetings last winter and spring. The Board engaged in a rigorous study of the expected returns and risk parameters for each asset class. The Board then considered an array of asset mixes to provide the optimal combination that balanced risk with returns over the long-term. An important function of the review process is a complete evaluation of the Public Employees' Retirement System's liabilities to insure that expected returns meet future liabilities. At the April 1994 ASPIB meeting, the current asset allocation plan was adopted, and the Board committed itself to an annual review of asset allocations.

Investment returns (+2.71%) for the fiscal year were considerably lower than in recent years, but compared very favorably to other Public Retirement Funds. Returns for every asset class (Fixed Income, Domestic Equities, International Equities and Real Estate) produced higher returns than their appropriate benchmark indices.

The financial markets suffered in response to the Federal Reserve Bank raising interest rates four times between February 4, 1994 and May 17, 1994. The 1.25% increase in short term rates by the Federal Reserve Bank was in response to an accelerating economy and concerns that an accelerating economy would stimulate inflation.

This year marks the second consecutive year that performance has ranked well above median on a comparative basis. On a three (+9.41%) and five (+9.09%) year basis, total fund annualized returns are comparable to other public funds.

### Fixed Income

The Public Employees' Retirement System's (PERS) \$2.017 billion of fixed income investments are managed by staff of the Alaska Department of Revenue, Treasury Division. Although fiscal year 1994 was a difficult period for fixed income investments, the portfolio outperformed the benchmark, the Lehman Brothers Government Corporate Index. PERS' three and five year returns are excellent on an absolute basis and when compared to the index.

The conservative investment approach that generated significant returns in prior years helped shield the Fund's assets during fiscal year 1994. While the Fund's fixed income investments produced a negative return of 1.01 percent, it did relatively well compared to a negative 1.45 percent for the index.

The portfolio was structured to reduce the impact of rising interest rates. At the end of fiscal year 1994, the portfolio had approximately \$70 million in unrealized gains. Additionally, the portfolio had a yield to maturity of 6.98 percent compared to 5.77 percent at the end of fiscal year 1993. Fiscal year 1994's fixed income returns were favorable when measured against the Lehman Brothers Government Corporate Index.

The three and five year returns are excellent both on an absolute basis and compared to the index. These results were produced by a strategy designed for consistent long-term returns with limited risk. The strategy is based on three key principles.

First, investing is a long-term undertaking. Therefore, long-term trends, objectives, and risk/return

analysis should guide the process. Short-term opportunities or trends may appear but the long-term focus must not be lost.

Second, investment effort should be focused where the long-term risk return relationship is most advantageous. Research, based on data from 1926 to 1993, found that corporate bonds have produced greater returns with less risk than government bonds of similar maturity. PERS' investments are focused on intermediate corporate and government bonds (5 to 12 year maturity) because research has shown that these bonds have produced superior returns with significantly less risk than long-term bonds.

Diversification and risk control are the final keys to the PERS investment portfolio. The corporate bond investments are restricted to investment grade bonds. There are no "junk bonds" in the portfolio. PERS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and provide excellent diversification.

Many of the market conditions that helped produce stellar returns in the prior few years were no longer apparent in fiscal year 1994. The Lehman Brothers Government Corporate Index had a negative return for the first time since fiscal year 1981. Several national and international economic and market factors affected the portfolio's return. The economy's strong performance heightened concerns about rising inflation. On February 4th, for the first time in five years, the Federal Reserve Board raised short term interest rates. The fixed income market reacted negatively to this preemptive move to control inflation. The market struggled to interpret the rate increase. Had the Federal Reserve acted to head off future inflationary pressures or was inflation, low at the time, about to increase? Investors' psychology changed rapidly as they demanded higher yields on long-term fixed income investments. The Federal Reserve raised short term interest rates three more times during the spring in an effort to slow growth and convince the fixed income market that inflation would not become a major problem. Simultaneously, a slow recovery in the European economies stopped the decline of interest rates there, but as interest

rates began to rise in Europe and trade friction with Japan continued, the dollar lost value. This reduced the demand for U.S. dollar investments from overseas. Inflation concerns increased because imported goods would cost more in dollar terms. Negative investor sentiment was reinforced by the decline in the dollar exchange rate. The net result was significantly higher short- and long-term interest rates.

The improving economy did boost investment returns indirectly. The strong economy helped reduce the required credit premium on corporate bonds. Additionally, issuance of new corporate bonds was down 70 percent from the previous year. As a result, corporate bonds had better performance than U.S. Treasury securities with similar maturities. In fiscal year 1994 the PERS portfolio continued to enjoy the higher yield of corporate bonds.

The PERS portfolio had a slightly shorter maturity and a greater concentration in high grade corporate bonds than the Lehman Brothers Government Corporate Index. It is these two characteristics that gave the portfolio its return advantage over the index.

## Equities

The well-diversified investments of the Public Employees' Retirement System's \$1.6 billion domestic equity and \$400 million international equity portfolios are designed to limit risk from a specific company or economic region. This is achieved by hiring multiple equity managers who have a record of accomplishments with specific types of portfolios and mandates.

Domestic equity managers are contracted by the Alaska State Pension Investment Board because of their expertise in managing specific portfolios such as domestic equities, growth stocks, and value stocks. Portfolio management is further subdivided by large and small capitalized companies.

Multiple managers are employed to reduce risk in a given style or mandate. Should growth stocks perform poorly, for example, another style such as value stocks or smaller company stocks may well have greater returns.

The same approach is employed with the international equity portfolio. Several external managers are employed who have regional expertise. This is exemplified by the Fund's approach to using managers for our European and Pacific Basin portfolios who have demonstrated their skills in these areas.

The domestic and international equity portfolios continued to benefit from the restructuring of these respective portfolios in the prior fiscal year. The domestic equity portfolio returned 3.68% for the year which compares favorably to the benchmark S & P 500 Index return of 1.24%. Returns for longer periods also show better performance than the comparable indices. The annualized results for three years is 10.11% versus index returns of 9.27% and 10.68% for five years versus 10.28%.

International equities provided the highest returns of any asset class for the fiscal year. These assets earned 24.58% for the year ending June 30, 1994. These returns exceeded the benchmark EAFE (Europe, Australia and Far East) Index by over 7.50%. As was the case for domestic equities, the international equity portfolio had returns in excess of the EAFE Index for longer periods of time. The annualized rate of return for three years is 13.66% versus 11.82% for the benchmark index and 9.23% versus 5.02% for five years.

## Quarterly Highlights

### *Quarter ending September 30, 1993:*

Domestic and international equity portfolios had positive returns for the quarter. The best performing sectors were utilities and financials, with returns of 7.00% and 6.94%, respectively. The weakest sectors were consumer staples and raw and intermediate materials, with returns of 2.88% and negative 1.17%, respectively.

International equity portfolios, the best performing asset class for the quarter, were aided by Singapore (+19.3%), Malaysia (+19.8%), and Italy (+19.5%). Japan, the largest component of the index, returned 3.5%.

### *Quarter ending December 31, 1993:*

Domestic and international equities continued to have positive returns with the latter returning 18.07% in only three months. In the domestic portfolio, consumer basics represented the largest sector weighting with a 9.4% return. As the specter of rising interest rates loomed, the finance sector performed poorly and returned a negative 6.4%.

International equities benefited from high returns in Hong Kong (+54.9%), Malaysia (+37.9%) and Singapore (+27.2%). Italy (-2.7%) and Japan (-14.3%) and a strengthening dollar inhibited returns to the international portfolio.

### *Quarter ending March 31, 1994:*

On February 4, 1994, the Federal Reserve Bank raised interest rates .25% for what would be the first of four interest rate increases. The event had a strong effect on the domestic equity portfolio with returns of a negative 3.31%. Basic industry and the technology sectors had modestly positive returns with the rest of the market sectors all contributing negative returns.

Italy (+26.6%), Japan (+16.3%) and several Scandinavian countries added positive returns in local currency terms, but a weakening dollar aided most European countries. The Fund's performance suffered by overweighting the Pacific Basin EX-Japan and returned a negative 6.12%.

### *Quarter ending June 30, 1994:*

Although the Federal Reserve Bank raised interest rates three times in the quarter, the domestic equity portfolio posted modest gains. Large capitalized stocks as measured by the S & P 500 Index returned .40% which well outpaced smaller companies as measured by the Russell 2000 Index (-3.89%).

International equities were the best performing asset class for the quarter. The Japanese equity market continued to be one of the best performing equity markets (+11.8%). Japan was followed by Singapore (+8.3%) and New Zealand (+6.7%). Continental

Europe suffered with Italy (-4.8%), France (-4.2%), and Spain (-33.2%) offering the poorest returns.

## Real Estate

The Public Employees' Retirement System (PERS) currently has \$116 million invested in real estate equities, through commingled funds, administered by nationally recognized investment managers. During fiscal year 1994 the real estate market continued its steady improvement.

The NCREIF Index, a national barometer of commingled fund performance, had positive returns for the first time in five years, posting a total return of 4.08%. The real estate equities held by the PERS substantially outperformed the NCREIF Index with an FY 1994 total return of 7.04%. This return is also a marked improvement over the portfolio's three year (-2.03%) and five year (-2.86%) performance figures.

While the real estate market has enjoyed continuing improvement, different property types and geographical locations have experienced varying degrees of success. Apartments have outperformed all other income producing property types over the past year. Nationally, demand has expanded faster than supply despite an upsurge in home purchases. Apartment construction is increasing as vacancies fall and construction money becomes more readily available. While prices in some markets have peaked, continued institutional and real estate investment trust appetites for new apartment investments are continuing to drive values up nationwide.

Market fundamentals for industrial properties have shown moderate improvement as the economy continues to expand. As very little construction is occurring, vacant space remaining from the 1980s is being slowly reduced. Factors deterring a more rapid growth in occupancy include ongoing corporate downsizing, the continuing effects of defense cuts, and the growing use of new, less space intensive distribution technologies. Although current income growth has been limited, competition for product has revalued industrial properties upward.

Premium retail properties have experienced upward price movements in response to retail sales improvement and, again, competition for product. The most desired property types continue to be the upper tier regional and super-regional malls and so called "power centers." Tenants in these centers typically include stores similar in concept to Wal-Mart, Sam's Club, Office Max, and Jo-Ann Fabrics. The upper tier malls are considered to be the least likely to suffer from the competition of "power centers" and the churning in the department store industry, which is leading to the creation of financially stable, but fewer chains. Because of the changing retail environment, institutional investors are extremely selective in their retail property purchases.

The office market remains saturated because of extensive over-building during the 1980s and corporate downsizing. Thanks mainly to improving suburban markets and several revitalized urban areas, investor pessimism is declining. Because there are massive inventories of vacant space in some markets, write downs will continue in the office sector.

Real estate investors constantly monitor changes in the market. Prominent examples of markets in change include: the Northeast and East, which are in the initial stages of recovery, although several specific downtown markets such as Boston, New York, and Philadelphia remain relatively flat; the Washington, D.C. area is well into recovery, especially the suburbs; and Mountain States are doing very well with cities like Las Vegas, Denver, and Phoenix experiencing significant population and job growth. The Southeast is one of the most promising regions in the United States for employment growth, but the subregion drawing the most attention is the I-85 corridor, which runs from Atlanta northeast to Raleigh-Durham. Portions of Southern California continue to face challenging economic conditions.

As the perceived risk of owning real estate declines, real estate investment trusts, pension funds, individual and institutional investors are investing billions of dollars in the real estate market. The result has been more competition for quality properties and escalating prices.

**Public Employees' Retirement System  
Investment Summary  
Year Ended June 30, 1994  
(000s omitted)**

	<b>6/30/93 Book Value</b>	<b>6/30/93 Market Value</b>	<b>Purchases &amp; Reinvested Income</b>	<b>Maturities, Sales and Amortizations</b>	<b>6/30/94 Book Value</b>	<b>6/30/94 Market Value</b>	<b>% Total Market</b>
<b>Marketable Debt Securities</b>							
U.S. Government Debt	\$ 850,199	1,003,965	318,804	379,751	884,568	943,018	22.84%
Federal Agency Debt	56,342	61,275	6,218	10,000	56,811	57,493	1.39%
Corporate Debt	749,392	840,910	36,135	149,646	712,380	727,399	17.61%
Commercial Paper	99,887	99,859	1,067,474	1,002,991	164,356	164,342	3.98%
Other Dollar Denominated Securities	-	-	124,768	-	130,082	124,768	3.02%
<b>Equity Securities</b>							
Domestic Equity Pool	1,384,059	1,540,814	57,359	4,640	1,493,641	1,593,533	38.59%
International Equity Pool	283,239	288,175	72,551	-	325,978	360,726	8.74%
Emerging Markets Equity Pool	-	-	36,247	-	35,300	36,247	0.88%
<b>Real Estate</b>							
Mortgage Loans, Net of Allowance	8,368	8,368	-	2,704	5,664	5,664	0.14%
Real Estate Equity Investments	<u>155,164</u>	<u>113,438</u>	<u>7,449</u>	<u>4,798</u>	<u>157,657</u>	<u>116,089</u>	<u>2.81%</u>
<b>Total Investments</b>	<b><u>\$3,586,650</u></b>	<b><u>3,956,804</u></b>	<b><u>1,727,005</u></b>	<b><u>1,554,530</u></b>	<b><u>3,966,237</u></b>	<b><u>4,129,279</u></b>	<b><u>100.00%</u></b>

Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
						Annualized	
	1990	1991	1992	1993	1994	3 Year	5 Year
<b>Total Fund</b>							
PERS	10.05%	7.21%	11.60%	14.25%	2.71%	9.41%	9.09%
CPI	4.68%	4.69%	3.09%	2.82%	2.39%	2.73%	3.44%
<b>U.S. Common Stock Returns</b>							
PERS Domestic Equity	16.50%	5.87%	11.10%	15.68%	3.68%	10.11%	10.68%
S&P 500	16.41%	7.41%	13.45%	13.58%	1.24%	9.27%	10.28%
<b>International Stock Returns</b>							
PERS International Equities	15.04%	-7.97%	7.74%	8.44%	24.58%	13.66%	9.23%
Morgan Stanley Capital Intern'l EAFE	3.26%	-11.53%	-0.64%	20.28%	17.00%	11.82%	5.02%
<b>Domestic Fixed Income</b>							
PERS	6.85%	10.32%	15.10%	15.17%	-1.01%	9.48%	9.11%
Lehman Brothers							
Government/Corporate	7.11%	10.21%	14.17%	13.15%	-1.45%	8.38%	8.49%
<b>Real Estate Equity</b>							
PERS	-6.32%	-12.11%	-6.24%	-0.93%	7.09%	-2.03%	-2.86%
NCREIF Index	1.46%	-6.08%	-4.60%	-3.66%	4.08%	-2.19%	-.46%
CPI = Consumer Price Index S&P 500 = Standard and Poor's Domestic Equity Stock Index EAFE = Europe, Australia, and Far East Stock Index NCREIF = National Council of Real Estate Investment Fiduciaries							



**Public Employees' Retirement System  
Schedule of Investment Management Fees  
Year Ended June 30, 1994**

<b>Investment Advisors</b>	
Dorn, Helliesen & Cottle	\$ 15,834
Callan Associates, Inc.	5,093
Investment Advisory Council	41,010
<b>Performance Measurement</b>	
Callan Associates, Inc.	93,975
<b>Real Estate Consultants</b>	
The Townsend Group	8,463
<b>Domestic Equity Managers</b>	
Ark Asset Management Co., Inc.	617,701
Capital Guardian Trust Co.	189,842
IDS Advisory Group	431,939
Invesco MIM, Inc.	461,667
John McStay Investment Counsel	575,830
MacKay-Shields Financial Corp.	214,033
Newbold's Asset Management, Inc.	215,961
The Putnam Companies	433,063
RCM Capital Management	421,414
State Street Global Asset Management	157,442
<b>Tactical Asset Allocation Managers</b>	
Wells Fargo Nikko Investment Advisors	585,046
<b>Global Equity Managers</b>	
Lazard Freres Asset Management	400,227
Miller, Anderson & Sherrerd	550,086
<b>International Equity Managers</b>	
Citibank Global Asset Management	208,382
G.T. Capital Management	300,329
J.P. Morgan Investment Management, Inc.	329,888
Wellington Management Co.	<u>287,005</u>
Total	<u>\$6,544,230</u>

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**PERS**

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## **STATISTICAL SECTION**

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Public Employees' Retirement System System Membership					
Year	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
1984	25,803	3,859	1,333	7,849	38,844
1985	27,183	4,317	1,525	7,945	40,970
1986	27,643	4,657	1,766	8,155	42,221
1987	26,762	5,651	1,921	3,965	38,299
1988	26,676	6,702	1,898	3,101	38,377
1989	28,044	6,967	2,314	3,365	40,690
1990	29,086	7,365	2,745	3,695	42,891
1991	29,840	8,358	3,015	4,108	45,321
1992	30,721	8,704	3,249	4,380	47,054
1993	30,972	9,103	3,572	4,721	48,368

Public Employees' Retirement System Retiree Average Age and Benefits			
Year	# Retirees	Average Age	Average Monthly Benefit
1984	3,859	63.80	\$ 750
1985	4,317	63.82	836
1986	4,657	64.05	839
1987	5,651	60.39	925
1988	6,702	62.82	945
1989	6,967	63.28	957
1990	7,365	63.62	968
1991	8,358	63.15	1,038
1992	8,704	63.58	1,075
1993	9,103	63.98	1,047

Public Employees' Retirement System Schedule of Retired Members by Type of Retirant and Option Selected June 30, 1993								
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected #			
		1	2	3	Opt. 1	Opt. 2	Opt. 3	Opt. 4
Others								
\$ 1 - \$300	1,025	867	144	14	709	149	125	42
301 - 600	2,331	2,113	178	40	1,582	368	254	127
601 - 900	1,669	1,542	108	19	1,044	311	168	146
901 - 1200	1,107	1,016	63	28	718	173	128	88
1201 - 1500	729	656	40	33	475	125	72	57
1501 - 1800	475	437	13	25	292	81	56	46
1801 - 2100	328	304	11	13	179	65	42	42
2101 - 2400	243	229	5	9	132	50	27	34
2401 - 2700	168	159	4	5	90	41	23	14
2701 - 3000	103	97	6	-	49	39	10	5
over 3000	198	192	2	4	94	50	30	24
Totals	8,376	7,612	574	190	5,364	1,452	935	625
Police/Fire								
\$ 1 - \$300	12	11	1	-	2	5	4	1
301 - 600	44	34	5	5	26	12	4	2
601 - 900	58	55	2	1	38	9	6	5
901 - 1200	53	41	7	5	35	4	7	7
1201 - 1500	53	42	4	7	30	9	8	6
1501 - 1800	69	52	4	13	41	22	4	2
1801 - 2100	79	68	5	6	35	27	10	7
2101 - 2400	69	62	4	3	29	22	13	5
2401 - 2700	88	86	-	2	36	29	8	15
2701 - 3000	68	64	-	4	26	28	5	9
over 3000	134	122	3	9	52	50	16	16
Totals	727	637	35	55	350	217	85	75

Type of Retirement

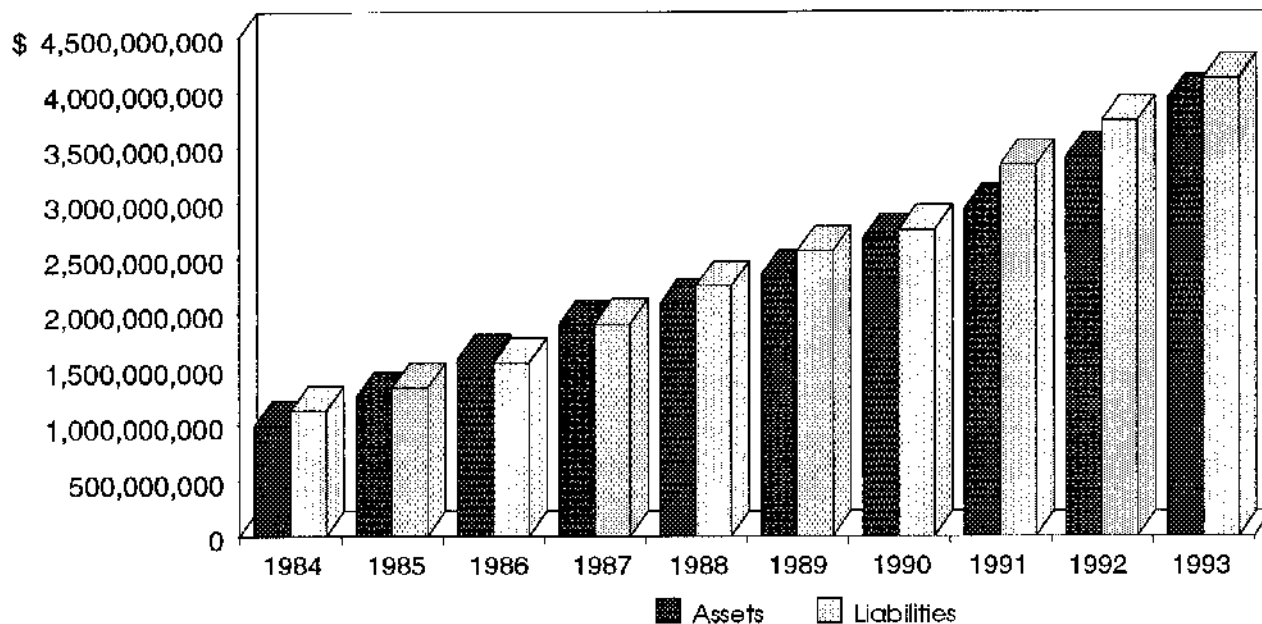
- 1 - Normal retirement
- 2 - Survivor payment
- 3 - Disability retirement

- Option 1 - Whole Life Annuity
- Option 2 - 75% Joint and Survivor Annuity
- Option 3 - 50% Joint and Survivor Annuity
- Option 4 - 66-2/3 % Joint and Survivor Annuity

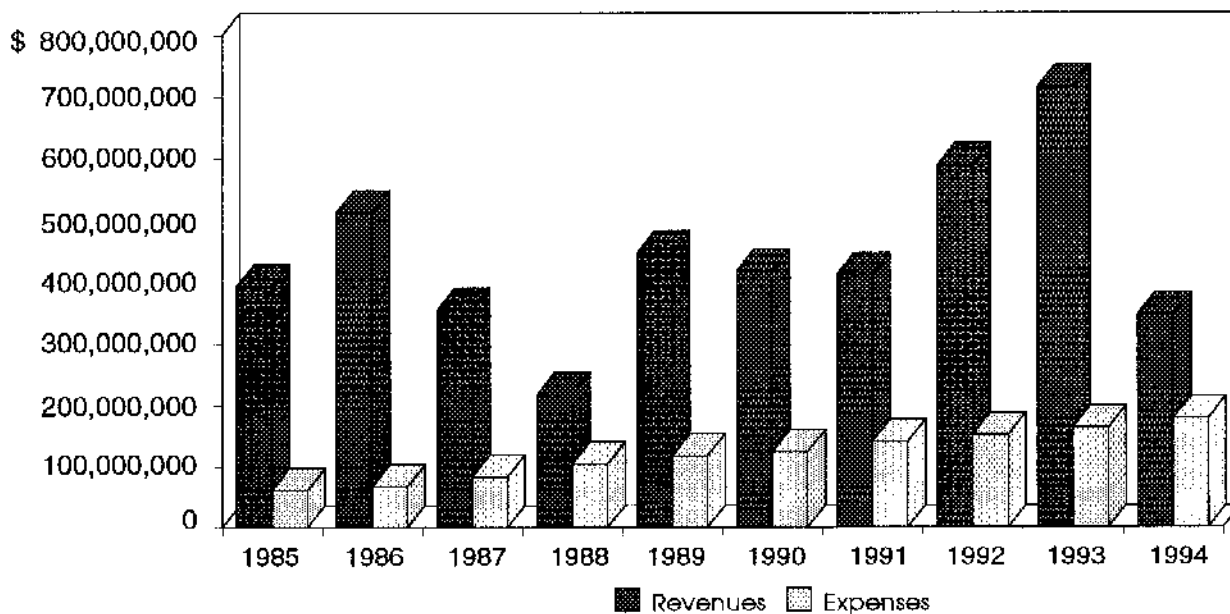
Public Employees' Retirement System Schedule of Average Benefit Payments New Retirees							
Years of Credited Service							
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Others							
Period 7/1/92 - 6/30/93: Average Monthly Benefit*	\$ 558	\$ 449	\$ 866	\$1,343	\$2,029	\$2,534	\$3,223
Number of Active Retirants	23	158	143	83	36	13	8
Period 7/1/91 - 6/30/92: Average Monthly Benefit	\$ 584	\$498	\$ 842	\$ 1,240	\$ 1,941	\$ 2,350	\$ 2,758
Number of Active Retirants	19	161	138	71	32	8	6
Period 7/1/90 - 6/30/91: Average Monthly Benefit	\$ 708	\$ 561	\$ 928	\$ 1,379	\$ 1,962	\$ 2,781	\$ 3,235
Number of Active Retirants	40	267	282	154	76	42	15
Period 7/1/89 - 6/30/90: Average Monthly Benefit	\$ 627	\$ 480	\$ 830	\$ 1,325	\$ 1,856	\$ 2,168	\$ 3,352
Number of Active Retirants	46	181	124	66	30	4	6
Period 7/1/88 - 6/30/89: Average Monthly Benefit	\$ 712	\$ 414	\$ 771	\$ 1,187	\$ 1,791	\$ 2,054	\$ 3,443
Number of Active Retirants	47	155	83	36	18	10	4
Police/Fire							
Period 7/1/92 - 6/30/93: Average Monthly Benefit*	\$ 1,047	\$ 546	\$ 1,078	\$ 1,648	\$ 2,700	\$ 3,704	\$ 3,231
Number of Active Retirants	3	2	7	6	17	3	1
Period 7/1/91 - 6/30/92: Average Monthly Benefit	\$ 1,552	\$ 955	\$ 1,040	\$ 1,427	\$ 2,499	\$ 3,511	\$ -
Number of Active Retirants	4	3	8	8	11	1	-
Period 7/1/90 - 6/30/91: Average Monthly Benefit	\$ 1,522	\$ 401	\$ 1,047	\$ 1,961	\$ 2,588	\$ 3,374	\$ -
Number of Active Retirants	7	6	18	29	34	9	-
Period 7/1/89 - 6/30/90: Average Monthly Benefit	\$ 1,176	\$ 490	\$ 805	\$ 1,853	\$ 2,387	\$ -	\$ -
Number of Active Retirants	4	5	8	12	9	-	-
Period 7/1/88 - 6/30/89: Average Monthly Benefit	\$ 866	\$ 984	\$ 3,459	\$ 1,330	\$ 2,050	\$ 3,808	\$ -
Number of Active Retirants	2	8	1	2	4	1	-

\*"Average Monthly Benefit" included post-retirement pension adjustments and cost-of-living increases.

### PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES

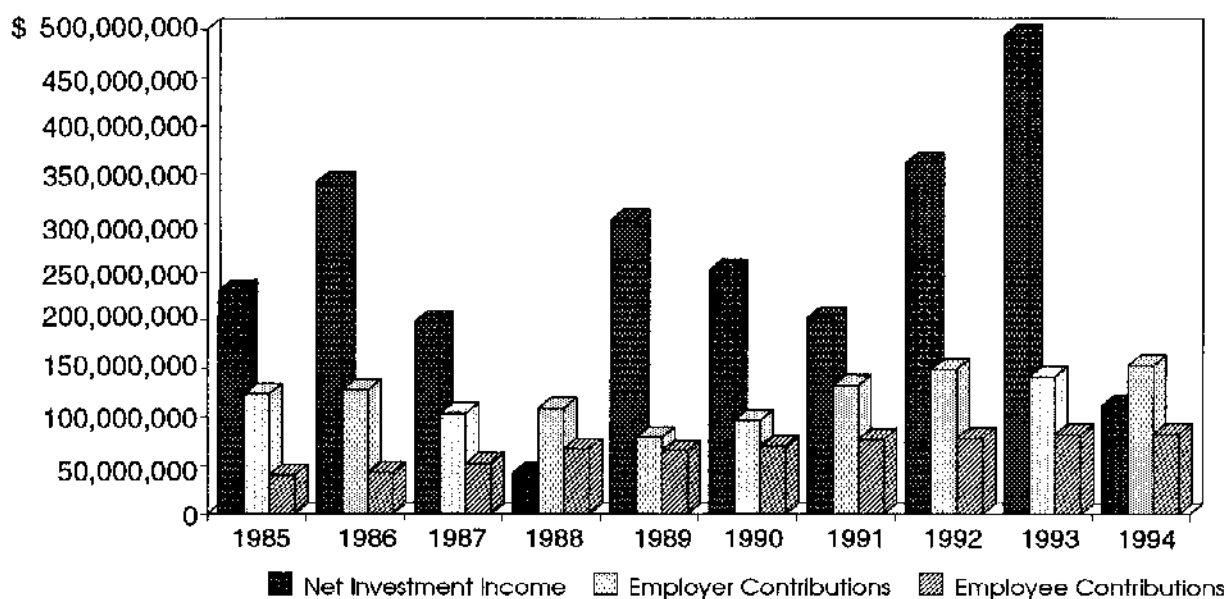


### PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR COMPARISON OF REVENUES AND EXPENSES

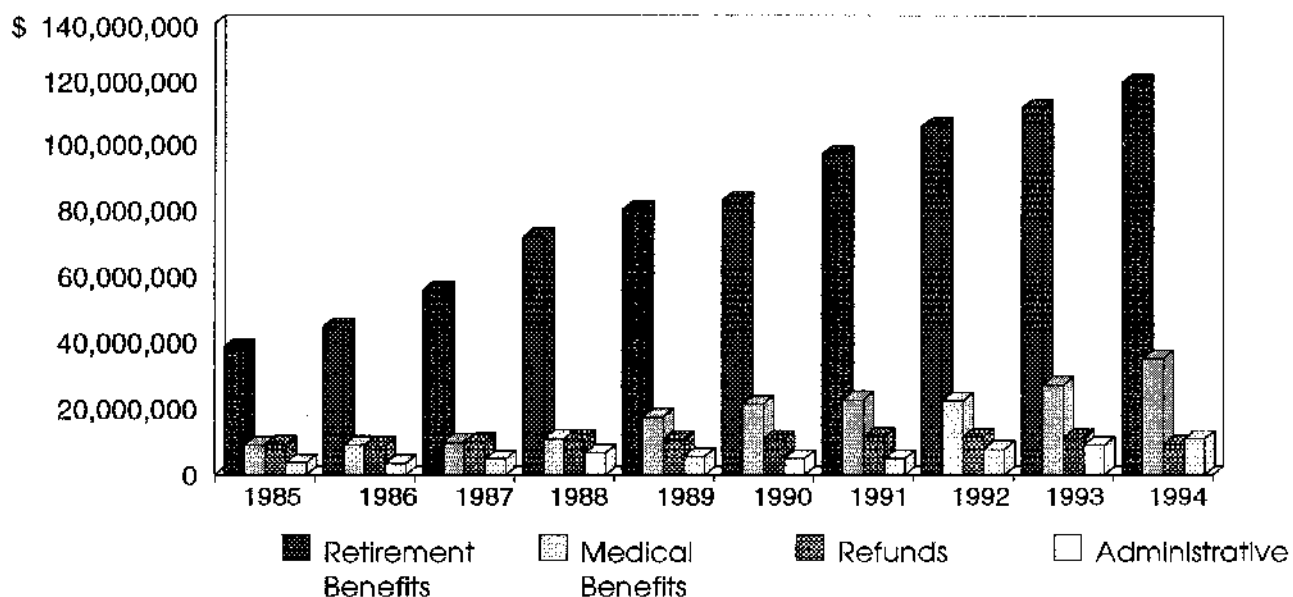




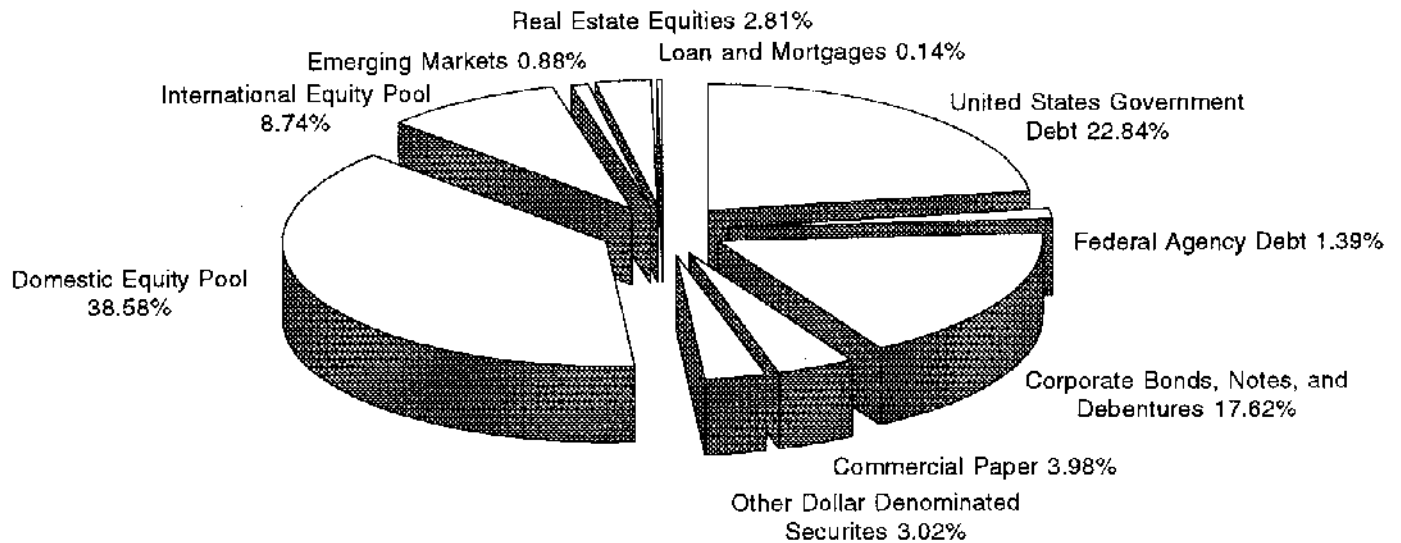
### PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR BREAKDOWN OF REVENUES BY SOURCE



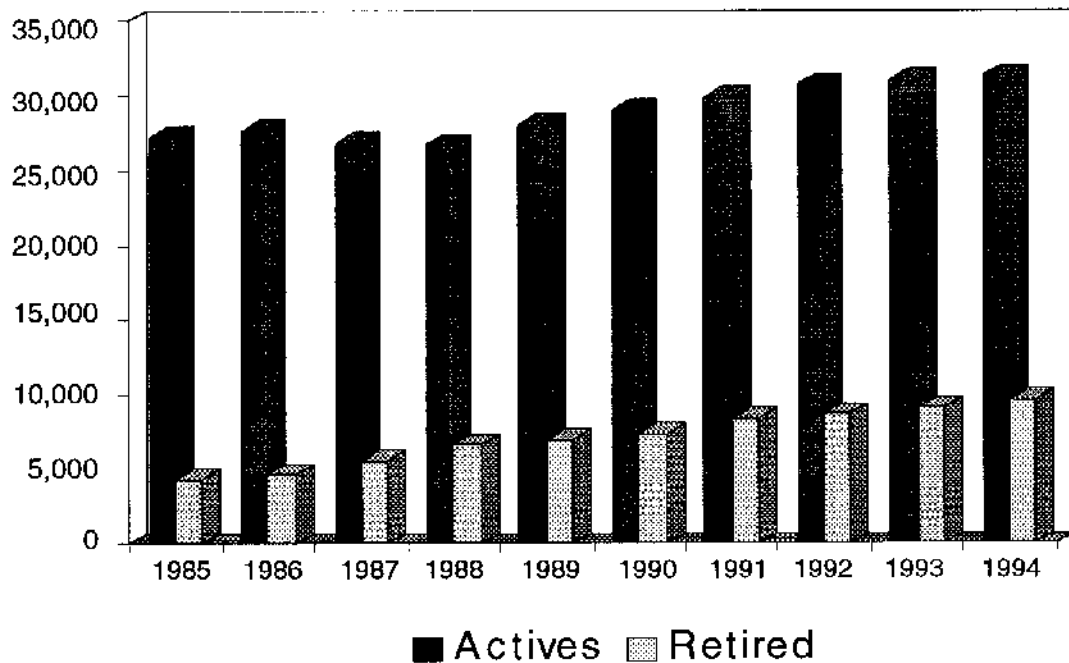
### PUBLIC EMPLOYEES' RETIREMENT SYSTEM 10-YEAR BREAKDOWN OF EXPENSES BY TYPE



**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT PORTFOLIO**  
Year Ended June 30, 1994



**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
10-YEAR COMPARISON OF ACTIVES AND RETIREES**



<b>PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES</b> <b>FISCAL YEAR 1994</b>
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Employer	Contribution Percentage
Adak Region School District	15.08
Akutan, City of	10.74
Alaska, State of	
Policemen, Firemen	17.22
All Other Employees	15.42
Alaska Gateway School District	10.18
Alaska Housing Finance Corporation	10.52
Alaska Municipal League	15.00
Alaska, University of	10.80
Alaska Geophysical Institute, University of	10.80
Aleutian Housing Authority	14.34
Aleutian Region School District	0.00
Aleutians East Borough	10.65
Aleutians East Borough School District	12.09
Aleutians West Coastal Resource Service Area	7.76
Allakaket, City of	10.18
Anchorage, Municipality of	12.33
Anchorage Parking Authority	4.39
Anchorage School District	14.64
Annette Island School District	4.89
Atka, City of	9.47
Barrow, City of	2.80
Bartlett Memorial Hospital	10.70
Bering Straits Coastal Resource Service Area	0.00
Bering Strait School District	5.37
Bethel, City of	7.83
Bristol Bay Borough	11.88
Bristol Bay Borough School District	15.61
Bristol Bay Coastal Resource Service Area	13.79
Bristol Bay Housing Authority	0.42
Chatham School District	7.91
Chugach Regional School District	3.93
Cook Inlet Housing Authority	14.05
Copper River Basin Regional Housing Authority	11.60
Copper River School District	10.68
Cordova, City of	12.19
Cordova Community Hospital	5.00
Cordova Public Schools	14.92
Craig, City of	7.56
Craig School District	9.53

**PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES  
FISCAL YEAR 1994**

<b>Employer (continued)</b>	<b>Contribution Percentage</b>
Delta/Greely School District	9.57
Denali Borough	10.18
Denali Borough School District	4.56
Dillingham, City of	4.25
Dillingham City School District	14.38
Elim, City of	14.18
Fairbanks, City of	22.98
Fairbanks Municipal Utility System	22.98
Fairbanks North Star Borough	0.00
Fairbanks North Star Borough School District	6.86
Fort Yukon, City of	0.00
Galena, City of	0.00
Galena City Schools	0.00
Grayling, City of	12.00
Haines Borough	8.83
Haines Borough School District	8.64
Haines, City of	5.00
Homer, City of	11.09
Hoonah, City of	0.00
Hoonah City Schools	32.70
Hooper Bay, City of	12.20
Huslia, City of	7.18
Hydaburg City Schools	9.54
Iditarod Area School District	2.72
Interior Regional Housing Authority	13.96
Juneau Borough School District	12.73
Juneau, City and Borough of	12.15
Kachemak, City of	10.18
Kake City School District	10.18
Kaltag, City of	11.12
Kashunamuit School District	9.63
Kenai, City of	3.91
Kenai Peninsula Borough	12.29
Kenai Peninsula Borough School District	14.23
Ketchikan, City of	23.11
Ketchikan Gateway Borough	11.75
Ketchikan Gateway Borough School District	15.04
King Cove, City of	0.65

**PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES  
FISCAL YEAR 1994**

<b>Employer (continued)</b>	<b>Contribution Percentage</b>
Kivalina, City of	6.31
Klawock, City of	22.13
Klawock City School District	8.75
Kodiak, City of	11.38
Kodiak Island Borough	10.51
Kodiak Island Borough School District	8.25
Kotzebue, City of	0.00
Koyuk, City of	15.08
Kuspuk School District	6.33
Lake and Peninsula Borough	12.43
Lake and Peninsula School District	6.83
Lower Kalskag, City of	10.18
Lower Kuskokwim School District	5.71
Lower Yukon School District	7.02
Marshall, City of	10.18
Matanuska-Susitna Borough	10.69
Matanuska-Susitna Borough School District	10.69
Mekoryuk, City of	10.18
Mountain Village, City of	11.68
Nenana, City of	0.00
Nenana City Public Schools	0.00
Nome, City of	8.47
Nome Public Utilities	0.00
Nome City Public Schools	2.86
Noorvik, City of	7.06
North Pacific Fisheries Management Council	1.31
North Pole, City of	0.00
North Slope Borough	4.88
North Slope Borough School District	8.99
Northwest Arctic Borough	6.23
Northwest Arctic Borough School District	0.00
Nuiqsut, City of	19.66
Old Harbor, City of	13.20
Palmer, City of	12.58
Pelican, City of	7.41
Pelican Schools	16.14
Petersburg, City of	15.94
Petersburg General Hospital	15.94
Petersburg Public Schools	15.94
Pribilof Regional School District	5.67

**PERS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES  
FISCAL YEAR 1993**

<b>Employer (continued)</b>	<b>Contribution Percentage</b>
Quinhagak, City of	10.18
Ruby, City of	0.00
Saint George, City of	37.10
Saint Mary's, City of	5.02
Saint Mary's School District	7.73
Saint Paul, City of	0.00
Sand Point, City of	11.54
Saxman, City of	27.05
Selawik City Council	5.00
Seward, City of	7.92
Seward General Hospital	28.20
Shishmaref, City of	7.50
Sitka, City and Borough of	16.48
Sitka Community Hospital	10.78
Sitka Borough School District	14.07
Skagway, City of	3.48
Skagway City School District	21.95
Soldotna, City of	13.86
Southeast Islands School District	7.97
Southeast Regional Resource Center	3.32
Southwest Region Schools	1.32
Special Education Service Agency	6.69
Tanana, City of	0.00
Tanana City School District	9.72
Thorne Bay, City of	3.22
Unalakleet, City of	8.73
Unalaska, City of	0.00
Unalaska City School District	5.97
Valdez, City of	7.06
Valdez City Schools	11.77
Wainwright, City of	16.69
Wasilla, City of	11.03
Whittier, City of	4.17
Wrangell, City of	12.65
Wrangell City Schools	12.55
Yakutat, City and Borough of	10.46
Yakutat City School District	10.18
Yukon Flats School District	0.00
Yukon-Koyukuk School District	0.00



**PERS**

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## **PLAN SUMMARY**





## STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

### Plan Summary

On January 1, 1961, the Alaska State Legislature established the Public Employees' Retirement System (PERS). Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986. The Commissioner of the Department of Administration is responsible for administering the System. The Public Employees' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing PERS funds. The Attorney General represents the system in legal proceedings.

#### Employers

Currently there are 155 employers participating in the PERS, including the State of Alaska and 154 political subdivisions and public organizations.

#### Members

Membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the PERS. Elected officials may waive PERS membership.

#### Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including military, temporary, Alaska Bureau of Indian Affairs, and pre-1961 service with the State, former

Territory or U.S. Government in Alaska. Members may also claim certain elected official, peace officer, correctional officer, and fire fighter service that was not creditable at the time it was performed. Leave without pay occurring after June 13, 1987, while a member is receiving Workers' Compensation may be claimed.

#### Employer Contributions

Individual contribution rates are established for each employer based upon consolidated and past service rates.

The *consolidated rate* is a uniform rate for all participating employers, which is amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The *past service rate* is determined separately for each employer to amortize their unfunded past service liability with level payments over 25 years. Funding surpluses are amortized over five years.

#### Member Contributions

Police and fire members are required to contribute 7.5% of their compensation; all other members contribute 6.75%. Members' contributions are deducted from gross wages before federal income

(Continued)

## STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

### Plan Summary

taxes are withheld. Member contributions are required for most types of claimed service. Members may voluntarily contribute up to an additional 5% of their compensation. Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

#### Retirement Benefit

The normal benefit is calculated by multiplying the member's average monthly compensation (AMC) times total PERS service times the appropriate percentage multiplier. The AMC is determined by averaging the salaries earned during the three highest, consecutive payroll years. The PERS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for all other members are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986 (all service before that date

is calculated at 2%). The multipliers for police and fire members are 2% for the first ten years and 2.5% for all service over 10 years.

Members are vested with five years of PERS service and are eligible for normal retirement at age 60 and early retirement at age 55. Members hired before July 1, 1986, are eligible for normal retirement at age 55 and early retirement at age 50. Under the conditional service provision, members may retire with less service when they reach retirement age and accumulate the required service. Members may also retire at any age with 20 years of police and fire service or 30 years of all other service.

Members may choose between the normal, early, joint and survivor (50%, 66-2/3% or 75%), and level income options. Actuarial adjustments to benefits are required under all options, except for normal retirement.

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, PERS service used to satisfy the minimum service requirements for retirement must be paid in full.

#### Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS service and contributions are withheld from their wages.

Members who retire under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

(Continued)

## STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

### Plan Summary

- a. Forfeit the three years of incentive credits that they received.
- b. Owe the PERS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.
- c. Be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

#### Disability Benefit

PERS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. When eligible for normal retirement, disability benefits terminate and the member is appointed to normal retirement.

*Occupational Disability.* There are no age or service requirements to be eligible for occupational disability. Monthly benefits equal 40% of the member's gross monthly compensation on the date of disability. Members on occupational disability continue to earn PERS service until their normal retirement date.

*Nonoccupational Disability.* Members must be vested to be eligible for nonoccupational disability benefits. Monthly benefits are calculated on the member's average monthly compensation and PERS service at the time of termination due to disability. Members on nonoccupational disability do not continue to earn PERS service.

#### Death Benefit

*Occupational Death.* When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit.

*Nonoccupational Death.* When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of termination or death.

Upon the death of the member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. The beneficiary also receives an additional \$1,000, plus \$100 for each year of PERS service, if the member has more than one year of PERS service.

*Death After Retirement.* When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing, lifetime monthly benefit.

#### Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during

(Continued)

**STATE OF ALASKA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Plan Summary**

the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- a. 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability, or
- b. 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least five years.

**Alaska Cost of Living Allowance**

Eligible benefit recipients who reside in Alaska receive the Alaska cost of living allowance (COLA), which is equal to 10% of their base benefits or \$50, whichever is more. The following benefit recipients are eligible:

- a. Members who were first hired under the PERS before July 1, 1986, and their survivors;
- b. Members who were first hired under the PERS after June 30, 1986, and their survivors if they are at least age 65; and
- c. All disabled members.



# **TEACHERS' RETIREMENT SYSTEM**



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## TEACHERS' RETIREMENT BOARD



**Dorothy Wells, Chair**  
Term Expires: 6/30/96



**Marjorie Fowler, Vice Chair**  
Term Expires: 1/31/96



**Stephanie Winsor**  
Term Expires: 6/30/96



**Cliff Kolvisto**  
Term Expires: 1/31/97



**Roger Aldrich**  
Term Expires: 1/31/95

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**TRS**

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## **FINANCIAL SECTION**

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**KPMG Peat Marwick LLP**

601 West Fifth Avenue  
Suite 700  
Anchorage, AK 99501-2258

**Independent Auditors' Report**

Division of Retirement and Benefits and  
Members of the Alaska Teachers' Retirement Board  
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of net assets available for plan benefits of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 1994 and 1993, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Teachers' Retirement System, A Component Unit of the State of Alaska, as of June 30, 1994 and 1993, and the changes in net assets available for plan benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*KPMG Peat Marwick LLP*

September 22, 1994



Member Firm of  
Klynveld Peat Marwick Goerdeler

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Statements of Net Assets Available for Plan Benefits  
(000s omitted)**

**June 30, 1994 and 1993**

	1994	1993
<b>Assets:</b>		
Investments, at market value:		
United States Government debt	\$ 487,181	539,308
Federal agency debt	22,856	24,311
Corporate bonds, notes and debentures	436,999	505,976
Commercial paper	69,617	66,921
Other dollar denominated securities	79,909	-
Domestic equity pool	923,925	879,400
International equity pool	209,148	181,041
Emerging markets equity pool	21,255	-
Real estate equities	69,397	67,705
Total investments	<u>2,320,287</u>	<u>2,264,662</u>
Loans and mortgages, at market value, net of allowance for loan losses of \$3,401 in 1994 and \$4,026 in 1993	<u>3,733</u>	<u>6,813</u>
Receivables:		
Contributions	8,732	8,663
Retirement incentive program	-	430
Accrued interest and dividends	21,553	20,430
Other accounts receivable	221	28
Total receivables	<u>30,506</u>	<u>29,551</u>
Cash and cash equivalents	<u>449</u>	<u>7,867</u>
Total assets	<u>2,354,975</u>	<u>2,308,893</u>
<b>Liabilities:</b>		
Accrued expenses	3,195	913
Due to State of Alaska General Fund	-	1,322
Commerce settlement liability	61	155
Total liabilities	<u>3,256</u>	<u>2,390</u>
Net assets available for plan benefits	<u><u>\$ 2,351,719</u></u>	<u><u>2,306,503</u></u>

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Statements of Changes in Net Assets Available for Plan Benefits  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

Additions:	1994	1993
Investment income:		
Net unrealized appreciation (depreciation) in market value of investments:		
Investments measured by quoted market values in an active market	\$ (119,152)	60,924
Investments measured by net realizable value as determined by management or other methods	(170)	(12,061)
Net unrealized appreciation (depreciation) in market value of investments	(119,322)	48,863
Interest	83,956	83,290
Dividends	34,199	30,054
Net realized gains on sales	64,314	118,169
Total investment income before recoveries on loans and mortgages	63,147	280,376
Net mortgage loan recoveries	114	3,200
Net investment income	63,261	283,576
Contributions:		
Employers	60,490	58,130
Employees	47,904	46,497
Total contributions	108,394	104,627
Other	(30)	26
Total additions	171,625	388,229
Deductions:		
Benefits paid:		
Retirement	100,767	92,703
Medical	15,725	12,089
Total benefits paid	116,492	104,792
Refunds to terminated employees	2,258	2,448
Administrative expenses	7,659	6,424
Total deductions	126,409	113,664
Net increase	45,216	274,565
Net assets available for plan benefits at beginning of year	2,306,503	2,031,938
Net assets available for plan benefits at end of year	<u>\$ 2,351,719</u>	<u>2,306,503</u>

*See accompanying notes to financial statements.*

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

**June 30, 1994 and 1993**

**(1) Description**

The following brief description of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General**

The Plan is the administrator of a defined benefit, cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 1994, the number of participating local government employers was:

School districts	54
Other	<u>7</u>
Total employers	<u><u>61</u></u>

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1993, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	<u>4,714</u>
Current employees:	
Vested	5,604
Nonvested	<u>3,855</u>
	<u>9,459</u>
	<u><u>14,173</u></u>

**Pension Benefits**

Vested employees hired prior to July 1, 1990 are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

The benefit related to all years of service earned prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990 is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age sixty-five by paying premiums.

#### **Death Benefits**

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the employee's spouse, or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982 are not eligible to participate

in this provision.

If an active employee dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(s).

#### **Disability Benefits**

If an employee has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

**Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

**(2) Summary of Significant Accounting Policies**

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

**Valuation of Investments**

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values. Market value is determined at the end of each month by the custodial agent. The agent's determination of market values involves, among other things, using pricing services or prices quoted by independent brokers.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

At June 30, 1994, loans and mortgages are stated at estimated market value as determined by management.

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio.

Loans and mortgages include approximately \$1,753 and \$2,911 for 1994 and 1993, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

During fiscal year 1993, mortgage loans with a principal balance of \$46,985 were sold through a competitive sale. Proceeds from the sale were \$45,226, resulting in a decrease in the previously recognized allowance for loan losses of \$1,759. No mortgage loans were sold in fiscal year 1994.

**Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

**Reclassifications**

Certain amounts have been reclassified to conform with the current year presentation.

*(Continued)*



**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

**(3) Deposits and Investments**

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1994, the Plan's deposits and investments are categorized as follows:

**Deposits**

Category 1 - Insured or collateralized with securities held by the State or its custodian in the Plan's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the Plan's name.

Category 3 - Uncollateralized.

**Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the Plan's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Plan's name:

*(Continued)*

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

	1	Category 2	3	Market value and carrying value
Deposits - cash and cash equivalents and undivided interest in a State of Alaska investment pool - short-term investment pool	\$ 449	-	-	449
Investments categorized:				
United States Government debt	487,181	-	-	487,181
Federal agency debt	22,856	-	-	22,856
Corporate bonds, notes and debentures	436,999	-	-	436,999
Commercial paper	69,617	-	-	69,617
Other dollar denominated securities	79,909	-	-	79,909
Total investments categorized	<u>1,096,562</u>	<u>-</u>	<u>-</u>	<u>1,096,562</u>
Total deposits and investments categorized	<u>\$ 1,097,011</u>	<u>-</u>	<u>-</u>	<u>1,097,011</u>
Investments which cannot be categorized as they are an undivided interest in a State of Alaska investment pool:				
Domestic equity pool				923,925
International equity pool				209,148
Emerging markets equity pool				<u>21,255</u>
Total investments not categorized				<u>1,154,328</u>
Other investments which cannot be categorized - real estate equities				<u>69,397</u>
Total investments not categorized				<u>1,223,725</u>
				<u>\$ 2,320,736</u>

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

During 1994 and 1993, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	1994	1993
Investments whose fair values have been measured by quoted prices in an active market:		
United States Government debt	\$ (51,720)	35,645
Federal agency debt	(1,637)	1,298
Corporate bonds, notes and debentures	(46,723)	25,686
Commercial paper	(28)	7
Other dollar denominated securities	(3,915)	-
Domestic equity pool	(32,969)	(7,108)
International equity pool	17,285	5,396
Emerging markets equity pool	555	-
Investments whose fair values have been measured by management estimates or other methods:		
Real estate equities	(170)	(4,503)
Loans and mortgages	114	(7,558)
	<u>\$ (119,208)</u>	<u>48,863</u>

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

The cost, market and carrying values of the Plan's investments at June 30, 1994 and 1993 are as follows:

	Cost	Market	Carrying value
<b>1994:</b>			
United States Government debt	\$ 450,631	487,181	487,181
Federal agency debt	22,392	22,856	22,856
Corporate bonds, notes and debentures	428,871	436,999	436,999
Commercial paper	69,640	69,617	69,617
Other dollar denominated securities	83,824	79,909	79,909
Domestic equity pool	859,198	923,925	923,925
International equity pool	188,873	209,148	209,148
Emerging markets equity pool	20,700	21,255	21,255
Real estate equities	93,501	69,397	69,397
Loans and mortgages, net of allowance for loan losses of \$3,401	<u>3,733</u>	<u>3,733</u>	<u>3,733</u>
	<u><b>\$ 2,221,363</b></u>	<u><b>2,324,020</b></u>	<u><b>2,324,020</b></u>
<b>1993:</b>			
United States Government debt	\$ 451,038	539,308	539,308
Federal agency debt	22,210	24,311	24,311
Corporate bonds, notes and debentures	451,125	505,976	505,976
Commercial paper	66,914	66,921	66,921
Domestic equity pool	781,704	879,400	879,400
International equity pool	178,052	181,041	181,041
Real estate equities	91,639	67,705	67,705
Loans and mortgages, net of allowance for loan losses of \$4,026	<u>6,813</u>	<u>6,813</u>	<u>6,813</u>
	<u><b>\$ 2,049,495</b></u>	<u><b>2,271,475</b></u>	<u><b>2,271,475</b></u>

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

The Alaska State Pension Investment Board has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. Prior to July 1, 1993, the Commissioner of Revenue had the statutory authority to invest the monies of the Plan. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

**(4) Other Dollar Denominated Securities**

Securities included in this asset category include Eurodollar, "Yankee" and Supranational Bonds, which are denominated in U.S. dollars. Yankee Bonds are issued by foreign-domiciled issuers who register with the Securities and Exchange Commission (SEC) and are underwritten by a U.S. syndicate for delivery in the United States. Eurodollar Bonds are issued by both U.S. and foreign government/corporate entities and are not registered with the SEC. Supranational Bonds are issued by international organizations that are not domiciled in a specific

country. At June 30, 1994, holdings of those securities by the Plan include:

Eurodollar corporate bonds	\$ 19,408
Eurodollar government bonds	10,753
Yankee corporate bonds	18,258
Yankee government bonds	29,945
Supranational bonds	<u>1,545</u>
	<u><b>\$ 79,909</b></u>

**(5) Pooled Investments**

**Domestic Equity Pool**

The investment activity of all domestic marketable securities was consolidated with the domestic marketable securities of other State funds to form a domestic equity pool. The activity and the June 30, 1994 and 1993 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains and losses are allocated monthly to each participant on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1994 and 1993, the Plan's investment in the domestic equity pool is comprised of the following:

	1994	1993
Marketable securities, at market	\$ 875,185	823,387
Interest and dividends receivable	3,310	3,151
Cash and cash equivalents	<u>45,430</u>	<u>52,862</u>
	<u><b>\$ 923,925</b></u>	<u><b>879,400</b></u>

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

**International Equity Pool**

The Plan, along with three other State retirement systems, has formed an international equity pool comprised of investments in various types of international equity securities. The majority of the international equity pool is comprised of common stock with available cash balances invested in short-term debt instruments. All accrued income, realized gains and losses, and income received are allocated monthly to the four participating funds on a pro rata ownership basis.

The international equity pool at June 30, 1994 and 1993 is comprised of the following:

	1994	1993
Marketable securities, at market	\$ 199,682	149,625
Interest and dividends receivable	665	661
Cash and cash equivalents	<u>8,801</u>	<u>30,755</u>
	<u><b>\$ 209,148</b></u>	<u><b>181,041</b></u>

**Emerging Markets Equity Pool**

The Plan, along with another State retirement system, has formed an emerging markets equity pool, with each retirement system owning shares of the pool. The pool participates in two externally managed commingled investment funds. The commingled funds, comprised of various

institutional investors, invest in the equity markets of developing countries. At June 30, 1994, the Plan's ownership in the pool was \$21,255.

**Short-Term Investment Pool**

The Plan, along with three other State retirement systems, participates in a short-term investment pool formed during 1993. Each participant owns shares in the short-term investment pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term investment pool, comprised of repurchase agreements and cash, are included in cash and cash equivalents. Because the short-term investment pool consists of overnight investments, market value equals cost; therefore, there are no gains and losses and all investment income is from interest. Interest accruals are based on the Plan's pro rata share of the short-term investment pool and are credited to the Plan daily, thereby compounding daily.

At June 30, 1994 and 1993, the Plan's investment in the short-term investment pool is comprised of the following:

	1994	1993
Repurchase agreement	\$ 439	7,628
Cash	<u>10</u>	<u>23</u>
	<u><b>\$ 449</b></u>	<u><b>7,651</b></u>

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

Cash and cash equivalents at June 30, 1994 and 1993 are comprised of the following:

	1994	1993
Short-term investment pool	\$ 449	7,651
Unsettled investment transactions	<u>—</u>	<u>216</u>
	<u>\$ 449</u>	<u>7,867</u>

**(6) Funding Status and Progress**

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 8 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is the amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date

of payment. The significant actuarial assumptions used in the valuations as of June 30, 1993 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over a rolling twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members.
- c. Retirement age - retirement rates based on the 1986-1990 actual experience.
- d. Discount rate - 9% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation:

Year	Per annum
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

- f. Salary scale - increase for the first five years of employment are as follows:

Inflation	5.0%
Productivity	0.5
Merit	<u>1.0</u>
Total	<u>6.5%</u>

Increases thereafter are 5.5%.

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Financial Statements  
(000s omitted)**

- g. Cost of living allowance (domicile in Alaska)  
- 66% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds - 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation - five-year average ratio of actuarial and amortized cost values of the Plan assets. Prior to June 30, 1992, the actuarial value of the assets equaled the market value of the Plan's assets, except that fixed income investments were carried at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals the market value as reported. Valuation assets cannot be outside of the range of amortized cost and actuarial values.

Turnover and disability assumptions are based upon the 1986-1990 actual experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1993, the unfunded pension benefit obligation was \$122,953, as follows:

Net assets available for benefits as of June 30, 1993, at market	<u>\$ 2,306,503</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,223,220
Current employees:	
Accumulated employee contributions including allocated investment income	370,667
Employer-financed, vested	746,208
Employer-financed, nonvested	<u>89,361</u>
Total pension benefit obligation as of June 30, 1993	<u>2,429,456</u>
Unfunded pension benefit obligation as of June 30, 1993	<u>\$ 122,953</u>

**(7) Actuarial Present Value of Accumulated Plan Benefits**

The actuarial present value of accumulated Plan benefits was determined by William M. Mercer, Incorporated using the unit credit cost method and the following assumptions:

- a. Future salary was not considered.

(Continued)



**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
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**Notes to Financial Statements  
(000s omitted)**

- b. Future service was considered only to the extent that it would permit active Plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.
- c. Assumptions used for mortality, withdrawal, retirement ages, disability and investment return are described in note 6 to these financial statements.

At June 30, 1993, the actuarial present value of accumulated Plan benefits was \$2,166,158 as follows:

Retired participants and beneficiaries of deceased participants	\$ 1,086,182
Terminated participants with deferred benefits	137,038
Active participants - vested	881,186
Active participants - nonvested	<u>61,752</u>
Actuarial present value of accumulated Plan benefits as of June 30, 1993	<u><u>\$ 2,166,158</u></u>

The change in the actuarial present value of accumulated Plan benefits at June 30, 1993 follows:

Actuarial present value of accumulated Plan benefits as of June 30, 1992	\$ 1,929,921
Increase (decrease) attributable to:	
Additional benefits accumulated, including actuarial experience	174,610
Change due to decrease in the discount period	168,867
Estimated benefits paid to participants	<u>(107,240)</u>
Actuarial present value of accumulated Plan benefits as of June 30, 1993	<u><u>\$ 2,166,158</u></u>

**(8) Contributions**

**Employee Contributions**

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees

(Continued)

**STATE OF ALASKA  
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**Notes to Financial Statements**

**(000s omitted)**

contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

**Employer Contributions**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded liability over a rolling twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1994		1993	
	Contributions	As a percentage of covered payroll	Contributions	As a percentage of covered payroll
Employer	\$ 60,490	11.70%	\$ 58,130	12.20%
Employee	<u>47,904</u>	<u>9.26</u>	<u>46,497</u>	<u>9.76</u>
	<u><b>\$ 108,394</b></u>	<u><b>20.96%</b></u>	<u><b>\$ 104,627</b></u>	<u><b>21.96%</b></u>
Normal cost	62,923	12.17	74,913	15.72
Amortization of unfunded actuarial accrued liability	<u>45,471</u>	<u>8.79</u>	<u>29,714</u>	<u>6.24</u>
	<u><b>\$ 108,394</b></u>	<u><b>20.96%</b></u>	<u><b>\$ 104,627</b></u>	<u><b>21.96%</b></u>

Unaudited covered payroll for 1994 and 1993 are \$517,068 and 476,428, respectively.

(Continued)

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
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**Notes to Financial Statements  
(000s omitted)**

Actuarial valuations for 1994 and 1993 were performed as of June 30, 1993 and 1992, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in note 6.

**(9) Retirement Incentive Program**

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a retirement incentive program. The program was available to state employees from October 1, 1989 through March 31, 1990, and all other employees from July 1, 1989 through December 31, 1989.

The retirement incentive program receivables represent the reimbursement due from employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between

the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan 21% of their annual compensation for the school year in which they terminated employment to participate in the programs. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

**(10) Historical Trend Information**

Historical trend information for 1985 through 1994 designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type. Information prior to 1985 is unavailable.

**STATE OF ALASKA  
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**Required Supplementary Information  
Analysis of Funding Progress  
(000s omitted)**

Pension benefit obligation year ended June 30	Net assets available for Plan benefits	Pension benefit obligation	Per- centage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets of excess of) pension benefit obligation as a percentage of covered payroll
1985	\$ 866,333	\$ 1,042,551	83.1%	\$ 176,218	\$ 358,110	49.2%
1986	1,141,650	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	1,303,464	1,210,909	107.6	(92,555)	348,606	(26.6)
1988	1,356,575	1,347,859	100.6	8,716	361,310	2.4
1989	1,545,877	1,557,643	99.2	11,766	431,445	2.7
1990	1,706,346	1,895,030	90.0	188,684	449,838	41.9
1991	1,824,663	2,075,405	87.9	250,742	422,655	59.3
1992	2,031,938	2,231,746	91.0	199,808	448,186	44.6
1993	<u>2,306,503</u>	<u>2,429,456</u>	<u>94.9</u>	<u>122,953</u>	<u>476,428</u>	<u>25.8</u>

Analysis of the dollar amounts of net assets available for Plan benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for Plan benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the

stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

*See accompanying notes to required supplementary information.*

## Schedule 2

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Required Supplementary Information  
Revenues by Source and Expense by Type  
(000s omitted)**

**Revenues by source**

<b>Year ended June 30</b>	<b>Employee contributions</b>	<b>Employer contributions</b>	<b>Interest, dividends and net realized gains on sales</b>	<b>Unrealized appreciation (depreciation) in market value Including pro- vision for losses, recov- eries and other</b>	<b>Total</b>	<b>Employer contribution as a percentage of annual covered payroll</b>
1985	\$ 29,176	\$ 68,826	\$ 74,171	\$ 78,418	\$ 250,591	19.2%
1986	32,039	69,276	119,173	103,643	324,131	17.7
1987	34,159	58,177	143,692	(15,677)	220,351	16.7
1988	33,104	69,363	100,239	(75,566)	127,140	19.2
1989	31,888	47,348	125,170	65,243	269,649	11.0
1990	35,224	53,670	146,612	12,129	247,635	11.9
1991	40,059	57,982	127,524	(4,675)	220,890	14.1
1992	44,338	57,071	166,132	46,620	314,161	12.4
1993	46,497	58,130	231,513	52,089	388,229	12.2
1994	<u>47,904</u>	<u>60,490</u>	<u>182,469</u>	<u>(119,238)</u>	<u>171,625</u>	<u>11.7</u>

**Expense by type**

	<b>Retirement benefits</b>	<b>Medical benefits</b>	<b>Refunds to terminated employees</b>	<b>Administrative expenses</b>	<b>Total</b>
1985	\$ 33,360	\$ 4,393	\$ 3,126	\$ 2,951	\$ 43,830
1986	38,476	4,424	3,311	2,603	48,814
1987	46,183	4,613	4,239	3,502	58,537
1988	60,939	5,040	3,798	4,252	74,029
1989	65,328	8,073	2,953	3,993	80,347
1990	71,134	9,713	2,896	3,423	87,166
1991	84,443	10,654	3,510	3,966	102,573
1992	88,648	10,111	2,641	5,612	107,012
1993	92,703	12,089	2,448	6,424	113,664
1994	<u>100,767</u>	<u>15,725</u>	<u>2,258</u>	<u>7,659</u>	<u>126,409</u>

Contributions, including contributions under the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Cash Receipts and Disbursements  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

	1994	1993
Cash and cash equivalents at beginning of year	\$ <u>7,867</u>	<u>12,498</u>
Add cash receipts:		
Contributions:		
Employer	60,433	60,268
Employee	47,892	48,653
Retirement incentive program - employer	429	2,020
Investment income from interest and dividends	119,147	108,974
Investment sales and maturities, including realized gains and losses	<u>825,931</u>	<u>466,830</u>
Total cash receipts	<u>1,053,832</u>	<u>686,745</u>
Less cash disbursements:		
Investment purchases	935,485	575,179
Benefit payments	114,888	104,792
Refunds	2,630	2,777
Administrative expenses	6,640	6,483
Other	<u>1,607</u>	<u>2,145</u>
Total cash disbursements	<u>1,061,250</u>	<u>691,376</u>
Cash and cash equivalents at end of year	<u>\$ 449</u>	<u>7,867</u>

*See accompanying notes to required supplementary information.*

## Schedule 4

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Administrative Expenses  
(000s omitted)**

**Years ended June 30, 1994 and 1993**

	Division of Retirement and Benefits	Teachers' Retirement Board	Division of Treasury	Alaska State Pension Investment Board	Totals 1994	1993
Personal services:						
Wages	\$ 759	-	416	26	1,201	786
Benefits	449	-	200	11	660	430
Other	<u>2</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>3</u>	<u>2</u>
Total personal services	<u>1,210</u>	<u>-</u>	<u>617</u>	<u>37</u>	<u>1,864</u>	<u>1,218</u>
Travel:						
Transportation	18	6	10	26	60	29
Per diem	12	6	7	15	40	18
Honorarium	<u>-</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>	<u>-</u>
Total travel	<u>30</u>	<u>12</u>	<u>17</u>	<u>50</u>	<u>109</u>	<u>47</u>
Contractual services:						
Management and consulting	-	-	4,677	-	4,677	-
Data processing	298	-	-	5	303	224
Actuarial and benefits consulting	87	-	-	-	87	82
Communications	66	-	3	3	72	69
Legal	42	5	-	44	91	46
Other professional services	30	-	-	-	30	42
Advertising and printing	18	-	90	7	115	39
Auditing	14	-	-	-	14	14
Repairs and maintenance	8	-	-	-	8	12
Medical specialists	8	-	-	-	8	4
Rentals/leases	4	-	-	3	7	4
Transportation	1	-	-	-	1	1
Other services	<u>8</u>	<u>-</u>	<u>3</u>	<u>1</u>	<u>12</u>	<u>8</u>
Total contractual services	<u>584</u>	<u>5</u>	<u>4,773</u>	<u>63</u>	<u>5,425</u>	<u>545</u>
Supplies	26	-	2	-	28	21
Equipment	214	-	19	-	233	47
Investment expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,546</u>
Total administrative expenses	<u>\$ 2,064</u>	<u>17</u>	<u>5,428</u>	<u>150</u>	<u>7,659</u>	<u>6,424</u>

*See accompanying notes to required supplementary information.*

**STATE OF ALASKA  
TEACHERS' RETIREMENT SYSTEM  
(A Component Unit of the State of Alaska)**

**Notes to Required Supplementary Information**

**Years ended June 30, 1994, 1993, 1992,  
1991, 1990, 1989, 1988, 1987, 1986 and 1985**

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The mortality tables were set forward one year for male members and set backward four years for female members; previously, the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 54% to 66% participation.

Effective June 30, 1992, the actuarial value of all assets equals market value; previously, fixed income investments were carried at amortized cost.





**TRS**

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## **ACTUARIAL SECTION**



**WILLIAM M.  
MERCER**  
INCORPORATED

April 5, 1994

State of Alaska  
Teachers' Retirement Board  
Department of Administration  
Division of Retirement & Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

Dear Members of the Board:

### **Actuarial Certification**

The actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 1993 by William M. Mercer, Incorporated. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 1993;
- (2) a determination of the appropriate contribution rate for each employer in the System;
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG Peat Marwick, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 1991.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY94 and a 25-year rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of assets to liabilities increased from 89.7% to 93.1% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

One Union Square Suite 3200  
600 University Street  
Seattle WA 98101 3137

206 292 7000

A Marsh & McLennan Company

**WILLIAM M.  
MERCER**  
INCORPORATED

Teachers' Retirement Board  
April 5, 1994  
Page 2

There were no significant changes in the actuarial assumptions or methods used in the determination of system assets and liabilities this year. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



Brian R. McGee, FSA  
Principal

JWJ/BRM/KMJ/jls



Peter L. Godfrey, FIA  
Associate

**Teachers' Retirement System**  
**Principle Results of the June 30, 1993, Actuarial Valuation**

<b>Funding Status as of June 30:</b>	<b>1992</b>	<b>1993</b>
(a) Valuation Assets*	\$ 2,001,864	\$ 2,261,082
(b) Accrued Liability*		
i) Non-Medical Benefits	1,872,660	2,016,852
ii) Total Benefits (including medical)	2,231,746	2,429,456
(c) Funding Ratio, (a) / (b)		
i) Non-Medical Benefits	106.9%	112.1%
ii) Total Benefits (including medical)	89.7%	93.1%

\* In thousands.

<b>Employer Contribution Rates for Fiscal Year:</b>	<b>1995</b>	<b>1996</b>
(a) Normal Cost Rate	8.57%	9.06%
(b) Past Service Rate	4.79%	3.42%
(c) Total Contribution Rate	13.36%	12.48%
(d) Actuarial Projection Rate	12.00%	12.00%

## TRS Actuarial Assumptions and Methods

The assumptions used in the valuation were adopted at the Fall 1991 TRS Board Meeting. The funding method used in the valuation was adopted June 30, 1985. The five-year smoothing method used to determine valuation assets was adopted June 30, 1989.

### Valuation of Liabilities

- A. Actuarial Method - Projected Unit Credit (no change).** Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over a rolling 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

### B. Actuarial Assumptions -

- |                      |  |   |       |
|----------------------|--|---|-------|
| 1. Investment Return | 9% per year, compounded annually, net of expenses.   |   |       |
| 2. Salary Scale      | Inflation  | - | 5.0%  |
|                      | Productivity   | - | 0.5%  |
|                      | Merit (first 5 years)  | - | 1.0%  |
| 3. Total Inflation   | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 5% annually.   |   |       |
| 4. Health Cost Trend | FY92   | - | 12.5% |
|                      | FY93   | - | 11.5% |
|                      | FY94   | - | 10.5% |
|                      | FY95   | - | 9.5%  |
|                      | FY96   | - | 8.5%  |
|                      | FY97 and later   | - | 7.5%  |
| 5. Mortality         | 1984 Unisex Pension Mortality Table, set forward one year for male members and set backward four years for female members. All deaths are assumed to result from nonoccupational causes. |   |       |

6. Turnover	Based upon the 1986-90 actual total turnover experience. (See Table 1).
7. Disability	Incidence rates based upon the 1986-90 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.
8. Retirement Age	Retirement rates based upon the 1986-90 actual experience in accordance with Table 3.
9. Spouse's Age	Wives are assumed to be four years younger than husbands.
10. Dependent Children	Benefits to dependent children have been valued assuming members who are not single have one dependent child.
11. Contribution Refunds	100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
12. C.O.L.A.	Of those benefit recipients who are eligible for the C.O.L.A., 66% are assumed to remain in Alaska and receive the C.O.L.A.
13. New Entrants	Growth projections are made for the active TRS population under three scenarios: Pessimistic: 0% per year Median: 1% per year Optimistic: 2% per year
14. Sick Leave	4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.
15. Expenses	Expenses are covered in the investment return assumption.

### Valuation of Assets

Based upon the five-year average ratio between actuarial and book values of the System's assets. Prior to June 30, 1992, the actuarial value of assets equalled the market value, except that fixed income investments were carried at amortized cost value. Effective June 30, 1992, the actuarial value of assets equals the full market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG Peat Marwick. Valuation assets cannot be outside the range of book and actuarial values.

### Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY95, the pre-65 monthly premium is \$382.93 and the post-65 premium is \$133.52, based on an assumed total blended premium of \$279.55. For FY95, the actual blended premium is \$336.05. The FY95 blended premium was provided by the State of Alaska Division of Retirement and Benefits.

**Table 1**  
**Alaska Teachers' Retirement System**  
**Total Turnover Assumptions**

Select Rates of Turnover During the First 10 Years of Employment		Ultimate Rates of Turnover After the First 10 Years of Employment	
Year of Employment	Rate	Ages	Rate
1	.26	20-39	.03
2	.24	40+	.02
3	.16		
4	.12		
5	.11		
6	.10		
7	.09		
8	.09		
9	.09		
10	.09		



**Table 2**  
**Alaska Teachers' Retirement System**  
**Disability Rates**  
**Annual Rates Per 1,000 Employees**

<b>Age</b>	<b>Rate</b>
20	.14
21	.14
22	.14
23	.15
24	.15
25	.15
26	.15
27	.15
28	.16
29	.16
30	.16
31	.17
32	.17
33	.25
34	.34
35	.44
36	.53
37	.64
38	.75
39	.87
40	.99
41	1.12
42	1.25
43	1.39
44	1.53
45	1.68
46	1.84
47	2.00
48	2.17
49	2.34
50	2.52
51	2.70
52	2.89
53	3.08
54	3.29
55	3.49
56	3.70
57	3.92
58	4.14
59	4.37
60	4.61
61	4.84
62	5.09
63	5.34
64	5.60

**Table 3**  
**Alaska Teachers' Retirement System**  
**Retirement Rates**

Age at Retirement	Retirement Rate
50	.10
51	.07
52	.07
53	.07
54	.07
55	.16
56	.16
57	.16
58	.16
59	.13
60	.13
61	.13
62	.13
63	.13
64	.10
65	.47
66	.82
67	1.00

For ages less than 50, teachers are assumed to retire two years after the earliest age they are eligible to retire.

Teachers' Retirement System Schedule of Active Member Valuation Data				
Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Percent Increase In Average Pay
June 30, 1993	9,459	\$459,746	\$48,604	.2%
June 30, 1992	9,238	448,186	48,515	2.2%
June 30, 1991	8,903	422,655	47,473	4.6%
June 30, 1990	8,586	389,702	45,388	1.8%
June 30, 1989	8,527	380,267	44,596	1.4%
June 30, 1988	8,218	361,310	43,966	-1.7%
June 30, 1987	7,797	348,606	44,710	.6%
June 30, 1986	8,824	392,136	44,440	7.8%
June 30, 1985	8,684	358,110	41,238	4.6%
June 30, 1984	8,259	325,540	39,416	5.6%

Teachers' Retirement System Schedule of Retirants and Beneficiaries Added to and Removed from Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase In Annual Allowances	Average Annual Allowance
	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
June 30, 1993	344	\$8,557,344	55	\$1,044,709	3,891	\$92,282,721	6.74%	\$23,717
June 30, 1992	120	5,799,044	62	1,436,106	3,602	86,452,653	5.31%	24,001
June 30, 1991	519	14,827,829	159	3,535,365	3,544	82,089,715	15.95%	23,163
June 30, 1990	208	6,181,779	122	2,648,864	3,184	70,797,251	5.25%	22,235
June 30, 1989	201	5,730,311	75	1,593,075	3,098	67,264,336	6.55%	21,712
June 30, 1988	639	16,668,442	43	856,302	2,972	63,127,100	33.42%	21,241
June 30, 1987	301	8,922,546	23	425,546	2,376	47,314,960	21.89%	19,914
June 30, 1986	189	3,685,188	113	2,079,652	2,098	38,817,960	4.31%	18,502
June 30, 1985	289	9,844,034	31	489,552	2,022	37,212,424	33.58%	18,404
June 30, 1984	192	3,214,991	140	2,194,640	1,764	27,857,942	3.80%	15,792
* Numbers are estimated, and include other internal transfers.								

### TRS Summary of Accrued and Unfunded Accrued Liabilities

Valuation Date	Aggregate Accrued Liability (000s)	Valuation Assets (000s)	Assets as a Percent of Accrued Liability	Unfunded Accrued Liabilities (UAL) (000s)	Annual Active Member Payroll (000s)	UAL as a Percent of Annual Active Member Payroll
June 30, 1993	\$2,429,456	\$2,261,082	93.1%	\$168,374	\$459,746	36.6%
June 30, 1992 <sup>(1)</sup>	2,231,746	2,001,864	89.7%	229,882	448,186	51.3%
June 30, 1991 <sup>(2)</sup>	2,075,405	1,779,579	85.7%	295,826	422,655	70.0%
June 30, 1990 <sup>(3)</sup>	1,895,030	1,662,242	87.7%	232,788	389,702	59.7%
June 30, 1989 <sup>(1)</sup>	1,557,643	1,480,389	95.0%	77,254	380,267	20.3%
June 30, 1988 <sup>(2)</sup>	1,347,859	1,331,905	98.8%	15,954	361,310	4.4%
June 30, 1987	1,210,909	1,225,009	101.2%	-	348,606	-
June 30, 1986	1,115,773	1,040,173	93.2%	75,600	392,136	19.3%
June 30, 1985 <sup>(2)(4)</sup>	1,042,551	833,617	80.0%	208,934	358,110	58.3%
June 30, 1984	804,018	674,382	83.9%	129,636	325,540	39.8%

(1) Change in Asset Valuation Method.

(2) Change of Assumptions.

(3) Change in Plan Provisions.

(4) Change in Funding Method.

### TRS Solvency Test

Valuation Date	Aggregate Accrued Liability For:			Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions (000s)	Inactive Members (000s)	Active Members (Employer-Financed Portion) (000s)				
June 30, 1993	\$370,667	\$1,223,220	\$835,569	\$2,261,082	100%	100%	79.8%
June 30, 1992 <sup>(1)</sup>	341,204	1,110,981	779,561	2,001,864	100%	100%	70.5%
June 30, 1991 <sup>(2)</sup>	293,136	1,056,453	725,816	1,779,579	100%	100%	59.2%
June 30, 1990 <sup>(3)</sup>	269,491	940,475	685,064	1,662,242	100%	100%	66.0%
June 30, 1989 <sup>(1)</sup>	253,436	779,296	524,911	1,480,389	100%	100%	85.3%
June 30, 1988 <sup>(2)</sup>	228,217	688,090	431,552	1,331,905	100%	100%	96.3%
June 30, 1987	210,493	578,468	421,948	1,225,009	100%	100%	100.0%
June 30, 1986	214,192*	426,333	475,248*	1,040,173	100%	100%	84.1%
June 30, 1985 <sup>(2)(4)</sup>	194,215*	419,694	428,642*	833,617	100%	100%	51.3%
June 30, 1984	168,942*	340,441	294,635*	674,382	100%	100%	56.0%

\* Estimated

(1) Change in Asset Valuation Method.

(2) Change of Assumptions.

(3) Change in Plan Provisions.

(4) Change in Funding Method

Teachers' Retirement System Analysis of Financial Experience					
Change in Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Contribution Rate During Fiscal Year				
	93	92	91	90	89
(1) Health Experience	-	-	-3.01%	-2.28%	3.06%
(2) Salary Experience	-.45%	-.34%	-.20%	-.49%	-.45%
(3) Investment Experience	-1.66%	-	.70%	-1.04%	-.76%
(4) Demographic Experience	1.23%	-.59%	.96%	1.10%	.65%
(5) Miscellaneous	—	—	—	.44%	.39%
(6) Gain (or Loss) During Year From Experience, (1) + (2) + (3) + (4) + (5)	-.88%	-.93%	-1.55%	-2.27%	2.89%
<b>Non-recurring Changes</b>					
(7) Contribution Rate Smoothing Method	-	-	1.21%	-3.96%	-
(8) Projection Valuation Method	-	-1.36%	-4.80%	-	-
(9) Asset Valuation Method	-	-1.30%	-	-	-
(10) Assumption Changes	-	-	-2.51%	-	-
(11) Plan Changes	—	—	—	6.76%	—
Composite Gain (or Loss) During Year,	<u>-.88%</u>	<u>-3.59%</u>	<u>-7.65%</u>	<u>.53%</u>	<u>2.89%</u>

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**TRS**

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## **INVESTMENT SECTION**

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## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400  
JUNEAU, ALASKA 99811-0400  
TELEPHONE: (907) 465-2300  
FACSIMILE: (907) 465-2389

### Message from the Commissioner of Revenue

The Alaska State Pension Investment Board (ASPIB) assumed fiduciary responsibility for the TRS Investment Fund on July 1, 1993. During the past fiscal year, a close working relationship has developed between ASPIB and the Department of Revenue Treasury Division, which provides the Board with staff support.

There are eight accounting staff members, headed by the Comptroller, who are responsible for accounting and safekeeping of investments, data processing and administrative support. Given the large volume of transactions, the diversity of investments and the many countries involved, this is a tremendous task. The staff has consistently met the challenges encountered as evidenced by the timely and accurate information and financial statements that are prepared for the funds.

It is recognized by Treasury Division staff that a key to continued success in management of investments lies in automation of information processing. Consequently, the Division has made a substantial commitment to using new computer technology in daily operations and has initiated major changes to the systems used. This is expected to enhance the abilities of staff to meet the ever increasing demands on their time, while at the same time building in flexibility for future changes in investment vehicles and operations.

Portfolio management has a staff of ten. The Chief Investment Officer administers real estate management, externally managed funds, internal fixed income investments and all investment contracts. The fixed income portfolio is managed by a staff of three, who have responsibility for the majority of the fixed income investments. Four people provide oversight of the real estate portfolio, which is managed by several external specialists.

In addition to the Department of Revenue staff working for ASPIB, we also coordinate with the Retirement & Benefits Division, which is located within the Department of Administration. Because the plan administration resides with the Division of Retirement & Benefits, the Director of that office meets regularly with Division of Treasury staff. The Director and the Accounting Services Manager have been instrumental in insuring that this coordinated effort is successful. Treasury staff are responsible for the investment of those funds, so a close working relationship between the two departments is necessary.

The Deputy Commissioner is the chief administrator for ASPIB. Coordination of staff, agenda presentation, and communication flows through that office.

The Department of Revenue staff are extremely pleased to be working for ASPIB. The Board has had to assimilate a tremendous amount of information in a short time. They are deeply committed to protecting the funding status and maintaining a strong portfolio of investments. It is indeed a pleasure to work for them.

A handwritten signature in black ink, reading "Robert D. Storer". The signature is written in a cursive, flowing style.

Robert D. Storer  
Acting Commissioner

## ALASKA STATE PENSION INVESTMENT BOARD



**William A. Corbus**  
**Chair**  
Appointed by the Governor



**Gail R. Schubert**  
**Vice Chair**  
Appointed by the Governor



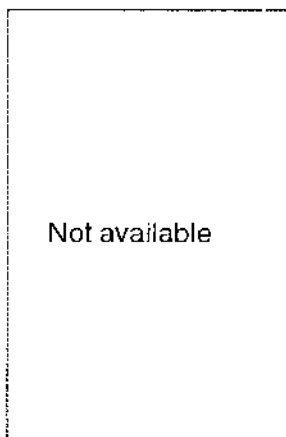
**Gary M. Bader**  
PERS representative



**Ross A. Kinney**  
Appointed by the Governor



**Merritt C. Olson**  
TRS representative



**Robert D. Storer**  
Statutory representative



**J. P. "Pat" Wellington**  
PERS representative



**Dorothy Wells**  
TRS representative

## ORGANIZATION

### S T A F F

**Acting Commissioner**

Robert D. Storer

**Chief Investment Officer**

Robert D. Storer

**Investment Officers**Michael S. Cheung, CFA, Marketable Debt  
Jeff Hassler, Real Estate**ASPIB Liaison Officer**

Vacant

**Comptroller**

Vacant

**Cash Management**

Vernon B. Voss

**Consultants and Performance Measurement**Callan Associates, Inc.  
San Francisco, CA  
The Townsend Group  
Cleveland, OH**Domestic Equity Large Cap**Ark Asset Management Co., Inc.  
New York, NY  
IDS Advisory Group  
Minneapolis, MN  
Invesco MIM, Inc.  
Atlanta, GA  
MacKay-Shields Financial Corporation  
New York, NY  
Newbold's Asset Management, Inc.  
Bryn Mawr, PA**Domestic Equity Small Cap**Capital Guardian Trust Co.  
Los Angeles, CA  
John McStay Investment Counsel  
Dallas, TX  
The Putnam Companies  
Boston, MA  
RCM Capital Management  
San Francisco, CA**Tactical Asset Allocation**Wells Fargo Nikko Investment Advisors  
San Francisco, CA**Domestic Equity Index**State Street Global Advisors  
Boston, MA**Global Equity**Lazard Freres Asset Management  
New York, NY  
Miller, Anderson & Sherrerd  
West Conshohocken, PA**International Equity—EAFE**J. P. Morgan Investment Management, Inc.  
London, England**International Equity—Europe**Citibank Global Asset Management  
New York, NY**International Equity—Pacific Basin EX Japan**G.T. Capital Management  
San Francisco, CA  
Wellington Management Co.  
Boston, MA**International Equity—Emerging Markets**Capital Guardian Trust Company  
Los Angeles, CA  
J.P. Morgan Investment Management  
New York, NY**Real Estate Management**AETNA Realty Investors  
Hartford, CT  
Equitable Real Estate Investment Management  
Irvine, CA  
Hancock Realty Investors, Inc.  
Boston, MA  
JMB Institutional Realty Corporation  
Chicago, IL  
Koll Investment Management  
Newport Beach, CA  
JP Morgan Investment Mgmt. Inc.  
New York, NY  
Sentinel Real Estate Corporation  
New York, NY**Domestic Fixed Income****Treasury Investment Officers**Robert Storer      Michael Cheung, CFA  
John Jenks, CFA      Chris Phillips**Investment Advisory Council**Mark T. Finn—Delta Financial Services, Inc.  
Ronald J. Surz—Performance Presentation  
Consulting Alliance  
Robert A. Haugen—UCLA-Irvine**Independent Auditors**KPMG Peat Marwick  
Anchorage, AK**Global Master Custodian**State Street Bank & Trust Co.  
Boston, MA**Legal Counsel**Wohlforth, Argetsinger, Johnson & Brecht  
Anchorage, AK

## The U.S. Economy

After three years of moderate recovery, the U.S. economy surprised Wall Street experts with a second quarter surge of 6.7% in the Gross Domestic Product (GDP) growth rate. The economy averaged 4% for the year despite a harsh winter and natural disasters that disrupted the economic performance in important regions of the country.

The job picture also improved during fiscal year 1994. An average of over 200,000 new jobs each month helped lower the nation's unemployment rate from 6.7% to 6.0% at the end of the fiscal year.

Most economic indicators also reflected strength in the U.S. economy. On a monthly basis, the Federal Reserve Board releases the industrial production index, which measures production by manufacturing, mining, and utility companies. Among these three components, manufacturing represents roughly 85% of the total industrial output. The index reported solid growth rates for the year, with the industrial production capacity utilization rate rising from 81% to the year-ending level of 83.4%. For example, the biggest problem for U.S. automobile manufacturers during the year was the struggle to meet strong customer demand. Despite a vigorous economy, inflation remained subdued. The Producer Price Index (PPI), an index of prices received by producers of goods and commodities, provides useful historical information on price pressures at the production level. The index finished the year unchanged. Another measurement that provides information on historical inflation is the Consumer Price Index (CPI). This index measures prices for a fixed basket of goods and services that consumers regularly buy. CPI closed out the year with a small gain of only 2.5%. These benign inflation numbers did not prevent the Federal Reserve Bank from raising interest rates for the first time in five years.

During the fiscal year, Federal Reserve Chairman Alan Greenspan continued to stress the need to end the accommodative monetary policy. Greenspan cited the Federal Reserve Bank's mandate to maintain price stability and reaffirmed the importance of

taming inflation while it was still manageable. During the year, officials at the Federal Reserve Bank noticed the persistent strength of the economy and its diminishing spare capacity. They believed sustained GDP growth above 2.5% could generate price pressures. Officials at the Federal Reserve Bank considered the 4% average GDP growth rate in fiscal year 1994 as a catalyst for future inflation. Historical inflation indicators like PPI and CPI are not reliable predictors of future inflation. Instead, the Federal Reserve Bank relies on forward looking inflation indicators. Chairman Greenspan continued to stress the importance of these indicators in formulating the Federal Reserve's monetary policy.

In his February Humphrey-Hawkins testimony before the U.S. Congress, Chairman Greenspan explained that commodity prices and especially the price of gold are key indicators for future inflation expectations. During the year, the Knight Ridder Commodity Research Board Index jumped from 210 to 230, an increase of 9.5%, reflecting a heightened concern about future inflation. Additionally, the price of gold shot up from the \$360 per oz. level and closed out the year at \$393 per oz.

The decline of the U.S. dollar in the international currency market also added incentive for the Federal Reserve Bank to raise interest rates. In the second half of fiscal year 1994, the U.S. dollar lost nearly 10% of its exchange value versus the Deutsche Mark and the Japanese Yen. Most experts believe a weak U.S. dollar will lead to higher import prices and inflation.

After much speculation, the Reserve Bank raised the Federal Funds rate by 0.25% in February. By the end of the fiscal year, it had raised the rate three more times. This represented an increase of 1.25% in the Federal Funds rate and caused an upward shift in short term U.S. Treasury yields.

The Federal Reserve Bank expected the recent interest rate hikes would curb economic activities and inflation expectations. Federal Reserve officials

also hoped to convey the message to investors that the Federal Reserve Bank is determined to maintain price stability.

During the year, there were two events that should counter inflationary pressures. The U.S. Congress passed the North America Free Trade Agreement (NAFTA) during the first half of fiscal year 1994. NAFTA calls for the dismantling of trade barriers and tariffs between the United States, Mexico, and Canada. Another set of trade barriers may fall if the participating countries ratify the Uruguay round of the General Agreement on Trade and Tariffs (GATT). Over one hundred countries favor the agreement, which is also supported by the Clinton Administration. The U.S. Congress is expected to vote on

GATT this fall. The lowering of barriers to entry and transaction costs equates to a tax cut for the export sector. Eventually, increased productivity and efficient allocation of resources will be achieved. Ultimately, free trade means cheaper and better products for consumers.

The economy closed out the year with two pressing questions. The first one was "Will the economy continue its strong growth in fiscal year 1995?" The second question was "Will inflation surge in fiscal year 1995?" Most economists predicted the economy would maintain the momentum and achieve some additional growth during the first half of fiscal year 1995.

## Investment Overview

Fiscal year 1994 was the first year that the Alaska State Pension Investment Board (ASPIB) had fiduciary responsibility for the assets of the Teachers' Retirement System. The Board's role is to provide responsive and sound investment management oversight of the TRS Fund.

The Trustees of ASPIB engaged the independent consulting firm of Callan Associates, Inc. to provide investment consulting services, asset allocation and performance measurement. Asset allocation is particularly important because studies have shown that the allocation decisions account for over 95% of the returns.

Asset allocation was reviewed at several ASPIB meetings last winter and spring. The Board engaged in a rigorous study of the expected returns and risk parameters for each asset class. The Board then considered an array of asset mixes to provide the optimal combination that balanced risk with returns over the long-term. An important function of the review process is a complete evaluation of the Teachers' Retirement System's liabilities to insure that expected returns meet future liabilities. At the April 1994 ASPIB meeting, the current asset allocation plan was adopted, and the Board committed itself to an annual review of asset allocations.

Investment returns (+2.65%) for the fiscal year were considerably lower than in recent years, but compared very favorably to other Public Retirement Funds. Returns for every asset class (Fixed Income, Domestic Equities, International Equities and Real Estate) produced higher returns than their appropriate benchmark indices.

The financial markets suffered in response to the Federal Reserve Bank raising interest rates four times between February 4, 1994 and May 17, 1994. The 1.25% increase in short term rates by the Federal Reserve Bank was in response to an accelerating economy and concerns that an accelerating economy would stimulate inflation.

This year marks the second consecutive year that performance has ranked well above median on a comparative basis. On a three (+9.29%) and five (+9.01%) year basis, total fund annualized returns are comparable to other public funds.

### Fixed Income

The Teachers' Retirement System's (TRS) \$1.1 billion of fixed income investments are managed by staff of the Alaska Department of Revenue, Treasury Division. Although fiscal year 1994 was a difficult period for fixed income investments, the portfolio outperformed the benchmark, the Lehman Brothers Government Corporate Index. TRS' three and five year returns are excellent on an absolute basis and when compared to the index.

The conservative investment approach that generated significant returns in prior years helped shield the Fund's assets during fiscal year 1994. While the Fund's fixed income investments produced a negative return of 1.35 percent, it did relatively well compared to a negative 1.45 percent for the index. The portfolio was structured to reduce the impact of rising interest rates. At the end of fiscal year 1994, the portfolio had approximately \$41 million in unrealized gains. Additionally, the portfolio had a yield to maturity of 7.09 percent compared to 5.77 percent at the end of fiscal year 1993. Fiscal year 1994's fixed income returns were favorable when measured against the Lehman Brothers Government Corporate Index.

The three and five year returns are excellent both on an absolute basis and compared to the index. These results were produced by a strategy designed for consistent long-term returns with limited risk. The strategy is based on three key principles.

First, investing is a long-term undertaking. Therefore, long-term trends, objectives, and risk/return analysis should guide the process. Short-term opportunities or trends may appear but the long-term focus must not be lost.

Second, investment effort should be focused where the long-term risk return relationship is most advantageous. Research, based on data from 1926 to 1993, found that corporate bonds have produced greater returns with less risk than government bonds of similar maturity. TRS' investments are focused on intermediate corporate and government bonds (5 to 12 year maturity) because research has shown that these bonds have produced superior returns with significantly less risk than long-term bonds.

Diversification and risk control are the final keys to the TRS investment portfolio. The corporate bond investments are restricted to investment grade bonds. There are no "junk bonds" in the portfolio. TRS will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. These and other restrictions preserve the liquidity of the portfolio and provide excellent diversification.

Many of the market conditions that helped produce stellar returns in the prior few years were no longer apparent in fiscal year 1994. The Lehman Brothers Government Corporate Index had a negative return for the first time since fiscal year 1981. Several national and international economic and market factors affected the portfolio's return. The economy's strong performance heightened concerns about rising inflation. On February 4th, for the first time in five years, the Federal Reserve Board raised short term interest rates. The fixed income market reacted negatively to this preemptive move to control inflation. The market struggled to interpret the rate increase. Had the Federal Reserve acted to head off future inflationary pressures or was inflation, low at the time, about to increase? Investors' psychology changed rapidly as they demanded higher yields on long-term fixed income investments. The Federal Reserve raised short term interest rates three more times during the spring in an effort to slow growth and convince the fixed income market that inflation would not become a major problem. Simultaneously, a slow recovery in the European economies stopped the decline of interest rates there, but as interest rates began to rise in Europe and trade friction with Japan continued, the dollar lost value. This reduced the demand for U.S. dollar investments from overseas. Inflation concerns increased because imported goods would cost more in dollar terms. Negative

investor sentiment was reinforced by the decline in the dollar exchange rate. The net result was significantly higher short- and long-term interest rates.

The improving economy did boost investment returns indirectly. The strong economy helped reduce the required credit premium on corporate bonds. Additionally, issuance of new corporate bonds was down 70 percent from the previous year. As a result, corporate bonds had better performance than U.S. Treasury securities with similar maturities. In fiscal year 1994 the TRS portfolio continued to enjoy the higher yield of corporate bonds.

The TRS portfolio had a slightly shorter maturity and a greater concentration in high grade corporate bonds than the Lehman Brothers Government Corporate Index. It is these two characteristics that gave the portfolio its return advantage over the index.

## Equities

The well-diversified investments of the Teachers' Retirement System's \$924 million domestic equity and \$230 million international equity portfolios are designed to limit risk from a specific company or economic region. This is achieved by hiring multiple equity managers who have a record of accomplishments with specific types of portfolios and mandates.

Domestic equity managers are contracted by the Alaska State Pension Investment Board because of their expertise in managing specific portfolios such as domestic equities, growth stocks, and value stocks. Portfolio management is further subdivided by large and small capitalized companies.

Multiple managers are employed to reduce risk in a given style or mandate. Should growth stocks perform poorly, for example, another style such as value stocks or smaller company stocks may well have greater returns.

The same approach is employed with the international equity portfolio. Several external managers are employed who have regional expertise. This is exemplified by the Fund's approach to using managers for our European and Pacific Basin portfolios who have demonstrated their skills in these areas.



The domestic and international equity portfolios continued to benefit from the restructuring of these respective portfolios in the prior fiscal year. The domestic equity portfolio returned 3.68% for the year which compares favorably to the benchmark S & P 500 Index return of 1.24%. Returns for longer periods also show better performance than the comparable indices. The annualized results for three years is 10.06% versus index returns of 9.27% and 10.65% for five years versus 10.28%.

International equities provided the highest returns of any asset class for the fiscal year. These assets earned 24.58% for the year ending June 30, 1994. These returns exceeded the benchmark EAFE (Europe, Australia and Far East) Index by over 7.50%. As was the case for domestic equities, the international equity portfolio had returns in excess of the EAFE Index for longer periods of time. The annualized rate of return for three years is 13.71% versus 11.82% for the benchmark index and 9.33% versus 5.02% for five years.

### **Quarterly Highlights**

#### ***Quarter ending September 30, 1993:***

Domestic and international equity portfolios had positive returns for the quarter. The best performing sectors were utilities and financials, with returns of 7.00% and 6.94%, respectively. The weakest sectors were consumer staples and raw and intermediate materials, with returns of 2.88% and negative 1.17%, respectively.

International equity portfolios, the best performing asset class for the quarter, were aided by Singapore (+19.3%), Malaysia (+19.8%), and Italy (+19.5%). Japan, the largest component of the index, returned 3.5%.

#### ***Quarter ending December 31, 1993:***

Domestic and international equities continued to have positive returns with the latter returning 18.07% in only three months. In the domestic portfolio, consumer basics represented the largest sector weighting with a 9.4% return. As the specter of rising interest rates loomed, the finance sector performed poorly and returned a negative 6.4%.

International equities benefited from high returns in Hong Kong (+54.9%), Malaysia (+37.9%) and Singapore (+27.2%). Italy (-2.7%) and Japan (-14.3%) and a strengthening dollar inhibited returns to the international portfolio.

#### ***Quarter ending March 31, 1994:***

On February 4, 1994, the Federal Reserve Bank raised interest rates .25% for what would be the first of four interest rate increases. The event had a strong effect on the domestic equity portfolio with returns of a negative 3.31%. Basic industry and the technology sectors had modestly positive returns with the rest of the market sectors all contributing negative returns.

Italy (+26.6%), Japan (+16.3%) and several Scandinavian countries added positive returns in local currency terms, but a weakening dollar aided most European countries. The Fund's performance suffered by overweighting the Pacific Basin EX-Japan and returned a negative 6.12%.

#### ***Quarter ending June 30, 1994:***

Although the Federal Reserve Bank raised interest rates three times in the quarter, the domestic equity portfolio posted modest gains. Large capitalized stocks as measured by the S & P 500 Index returned .40% which well outpaced smaller companies as measured by the Russell 2000 Index (-3.89%).

International equities were the best performing asset class for the quarter. The Japanese equity market continued to be one of the best performing equity markets (+11.8%). Japan was followed by Singapore (+8.3%) and New Zealand (+6.7%). Continental Europe suffered with Italy (-4.8%), France (-4.2%), and Spain (-33.2%) offering the poorest returns.

### **Real Estate**

The Teachers' Retirement System (TRS) currently has \$69 million invested in real estate equities, through commingled funds, administered by nationally recognized investment managers. During fiscal year 1994 the real estate market continued its steady improvement.

The NCREIF Index, a national barometer of commingled fund performance, had positive returns for the first time in five years, posting a total return of 4.08%. The real estate equities held by the TRS substantially outperformed the NCREIF Index with an FY 1994 total return of 6.67%. This return is also a marked improvement over the portfolio's three year (-2.56%) and five year (-2.92%) performance figures.

While the real estate market has enjoyed continuing improvement, different property types and geographical locations have experienced varying degrees of success. Apartments have outperformed all other income producing property types over the past year. Nationally, demand has expanded faster than supply despite an upsurge in home purchases. Apartment construction is increasing as vacancies fall and construction money becomes more readily available. While prices in some markets have peaked, continued institutional and real estate investment trust appetites for new apartment investments are continuing to drive values up nationwide.

Market fundamentals for industrial properties have shown moderate improvement as the economy continues to expand. As very little construction is occurring, vacant space remaining from the 1980s is being slowly reduced. Factors deterring a more rapid growth in occupancy include ongoing corporate downsizing, the continuing effects of defense cuts, and the growing use of new, less space intensive distribution technologies. Although current income growth has been limited, competition for product has revalued industrial properties upward.

Premium retail properties have experienced upward price movements in response to retail sales improvement and, again, competition for product. The most desired property types continue to be the upper tier regional and super-regional malls and so called

"power centers." Tenants in these centers typically include stores similar in concept to Wal-Mart, Sam's Club, Office Max, and Jo-Ann Fabrics. The upper tier malls are considered to be the least likely to suffer from the competition of "power centers" and the churning in the department store industry, which is leading to the creation of financially stable, but fewer chains. Because of the changing retail environment, institutional investors are extremely selective in their retail property purchases.

The office market remains saturated because of extensive over-building during the 1980s and corporate downsizing. Thanks mainly to improving suburban markets and several revitalized urban areas, investor pessimism is declining. Because there are massive inventories of vacant space in some markets, write downs will continue in the office sector.

Real estate investors constantly monitor changes in the market. Prominent examples of markets in change include: the Northeast and East, which are in the initial stages of recovery, although several specific downtown markets such as Boston, New York, and Philadelphia remain relatively flat; the Washington, D.C. area is well into recovery, especially the suburbs; and Mountain States are doing very well with cities like Las Vegas, Denver, and Phoenix experiencing significant population and job growth. The Southeast is one of the most promising regions in the United States for employment growth, but the subregion drawing the most attention is the I-85 corridor, which runs from Atlanta northeast to Raleigh-Durham. Portions of Southern California continue to face challenging economic conditions.

As the perceived risk of owning real estate declines, real estate investment trusts, pension funds, individual and institutional investors are investing billions of dollars in the real estate market. The result has been more competition for quality properties and escalating prices.

**Teachers' Retirement System  
Investment Summary  
Year Ended June 30, 1994  
(000s omitted)**

	6/30/93 Book Value	6/30/93 Market Value	Purchases & Reinvested Income	Maturities, Sales and Amortizations	6/30/94 Book Value	6/30/94 Market Value	% Total Market
<b>Marketable Debt Securities</b>							
U.S. Government Debt	\$451,038	539,308	150,369	202,496	450,630	487,181	20.96%
Federal Agency Debt	22,210	24,312	-	1,456	22,392	22,856	0.98
Corporate Debt	451,125	505,976	104,514	173,491	428,871	436,999	18.80
Commercial Paper	66,914	66,920	433,332	430,635	69,640	69,617	3.00
Other Dollar Denominated Securities	-	-	79,909	-	83,824	79,909	3.44
<b>Equity Securities</b>							
Domestic Equity Pool	781,704	879,400	44,525	-	859,198	923,925	39.76
International Equity Pool	178,052	181,041	39,375	11,268	188,873	209,148	9.00
Emerging Markets Equity Pool	-	-	21,255	-	20,700	21,255	0.91
<b>Real Estate</b>							
Mortgage loans, net of Allowance	6,813	6,813	-	3,080	3,733	3,733	0.16
Real Estate Equity Investments	<u>91,639</u>	<u>67,705</u>	<u>4,237</u>	<u>2,545</u>	<u>93,501</u>	<u>69,397</u>	<u>2.99</u>
<b>Total Investments</b>	<b><u>\$2,049,495</u></b>	<b><u>2,271,475</u></b>	<b><u>877,516</u></b>	<b><u>824,971</u></b>	<b><u>2,221,362</u></b>	<b><u>2,324,020</u></b>	<b><u>100.00%</u></b>

**Teachers' Retirement System  
Schedule of Investment Results  
Fiscal Years Ended June 30**

						<b>Annualized</b>	
	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>3 Year</b>	<b>5 Year</b>
<b>Total Fund</b>							
TRS	10.15%	7.05%	11.17%	14.38%	2.65%	9.29%	9.01%
CPI	4.68%	4.69%	3.09%	2.82%	2.39%	2.73%	3.44%
<b>U.S. Common Stock Returns</b>							
TRS Domestic Equity	16.50%	5.87%	11.10%	15.67%	3.68%	10.06%	10.65%
S&P 500	16.41%	7.41%	13.45%	13.58%	1.24%	9.27%	10.28%
<b>International Stock Returns</b>							
TRS International Equities	16.28%	-8.63%	7.87%	8.44%	24.58%	13.71%	9.33%
Morgan Stanley Capital Intern'l EAFE	3.26%	-11.53%	-0.64%	20.28%	17.00%	11.82%	5.02%
<b>Domestic Fixed Income</b>							
TRS	6.95%	10.19%	15.14%	15.11%	-1.35%	9.35%	9.03%
Lehman Brothers Government/Corporate	7.11%	10.21%	14.17%	13.15%	-1.45%	8.38%	8.49%
<b>Real Estate Equity</b>							
TRS	-6.32%	-12.11%	-6.24%	-0.93%	6.67%	-2.56%	-2.92%
NCREIF Index	1.46%	-6.08%	-4.60%	-3.66%	4.08%	-2.19%	-4.46%
CPI = Consumer Price Index S&P 500 = Standard & Poor's Domestic Equity Stock Index EAFE = Europe, Australia, and Far East Stock Index NCREIF = National Council of Real Estate Investment Fiduciaries							

**Teachers' Retirement System**  
**Schedule of Investment Management Fees**  
**Year Ended June 30, 1994**

**Investment Advisors**

Dorn, Helliesen & Cottle	\$15,834
Callan Associates, Inc.	2,926
Investment Advisory Council	41,110

**Performance Measurement**

Callan Associates, Inc.	56,090
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**Real Estate Consultants**

The Townsend Group	8,463
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**Domestic Equity Managers**

Ark Asset Management Co., Inc.	471,956
Capital Guardian Trust Co.	108,769
IDS Advisory Group	247,487
Invesco MIM, Inc.	264,539
John McStay Investment Counsel	249,912
MacKay-Shields Financial Corp.	91,718
Newbold's Asset Management, Inc.	123,747
The Putnam Companies	248,131
RCM Capital Management	241,476
State Street Global Asset Management	90,211

**Tactical Asset Allocation Managers**

Wells Fargo Nikko Investment Advisors	335,195
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**Global Equity Managers**

Lazard Freres Asset Management	229,371
Miller, Anderson & Sherrerd	423,287

**International Equity Managers**

Citibank Global Asset Management	142,987
G.T. Capital Management	172,136
J.P. Morgan Investment Management, Inc.	226,800
Wellington Management Co.	<u>164,446</u>

Total	<u>\$3,956,591</u>
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**TRS**

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## **STATISTICAL SECTION**

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Teachers' Retirement System System Membership					
Year	Active	Retirees & Beneficiaries	Vested Terminations	Nonvested Terminations w/Balance	Total
1984	8,259	1,764	509	914	11,446
1985	8,684	2,022	335	1,093	12,134
1986	8,824	2,098	481	869	12,272
1987	7,797	2,376	777	1,529	12,479
1988	8,218	2,972	408	938	12,536
1989	8,527	3,098	508	943	13,076
1990	8,586	3,184	816	985	13,571
1991	8,903	3,544	645	1,003	14,095
1992	9,238	3,602	710	1,057	14,607
1993	9,459	3,891	823	1,013	15,186

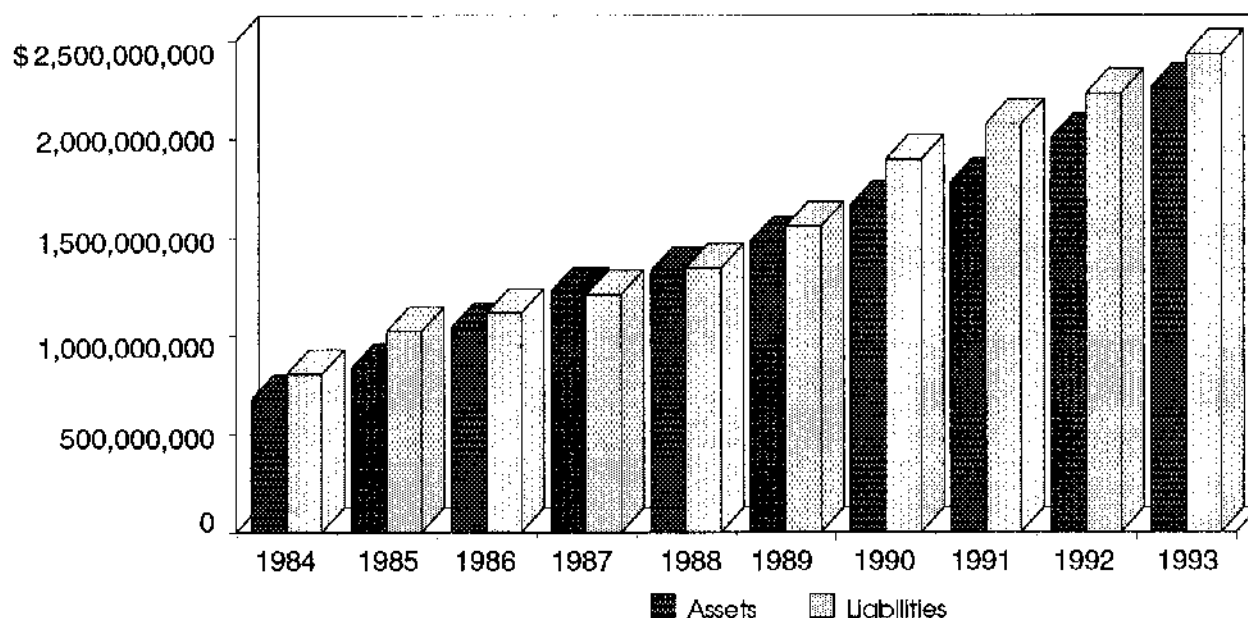
Teachers' Retirement System Retiree Average Age and Benefits			
Year	# Retirees	Average Age	Average Monthly Benefit
1984	1,764	63.17	\$ 1,316
1985	2,022	62.75	1,534
1986	2,098	63.18	1,542
1987	2,376	62.83	1,659
1988	2,972	61.41	1,770
1989	3,098	61.85	1,812
1990	3,184	62.45	1,853
1991	3,544	61.64	1,930
1992	3,602	61.97	2,000
1993	3,891	62.47	1,976

TRS Schedule of Retired Members by Type of Retirant and Option Selected June 30, 1993								
Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected #			
		1	2	3	Opt. 1	Opt. 2	Opt. 3	Opt. 4
\$1 - \$ 300	47	32	15	-	38	5	4	-
301 - 600	167	136	31	-	137	20	7	3
601 - 900	242	204	37	1	206	27	5	4
901 - 1200	317	295	19	3	268	30	15	4
1201 - 1500	376	359	15	2	341	25	10	-
1501 - 1800	542	520	15	7	493	33	16	-
1801 - 2100	592	568	9	15	529	44	18	1
2101 - 2400	526	502	5	19	471	41	12	2
2401 - 2700	377	359	3	15	340	32	5	-
2701 - 3000	254	244	1	9	235	15	2	2
over 3000	451	417	11	23	407	36	5	3
<b>Totals</b>	<b>3,891</b>	<b>3,636</b>	<b>161</b>	<b>94</b>	<b>3,465</b>	<b>308</b>	<b>99</b>	<b>19</b>
Type of Retirement								
1 - Normal retirement		Option 1 - Whole Life Annuity						
2 - Survivor payment		Option 2 - 75% Joint and Survivor Annuity						
3 - Disability retirement		Option 3 - 50% Joint and Survivor Annuity						
		Option 4 - 66-2/3% Joint and Survivor Annuity						

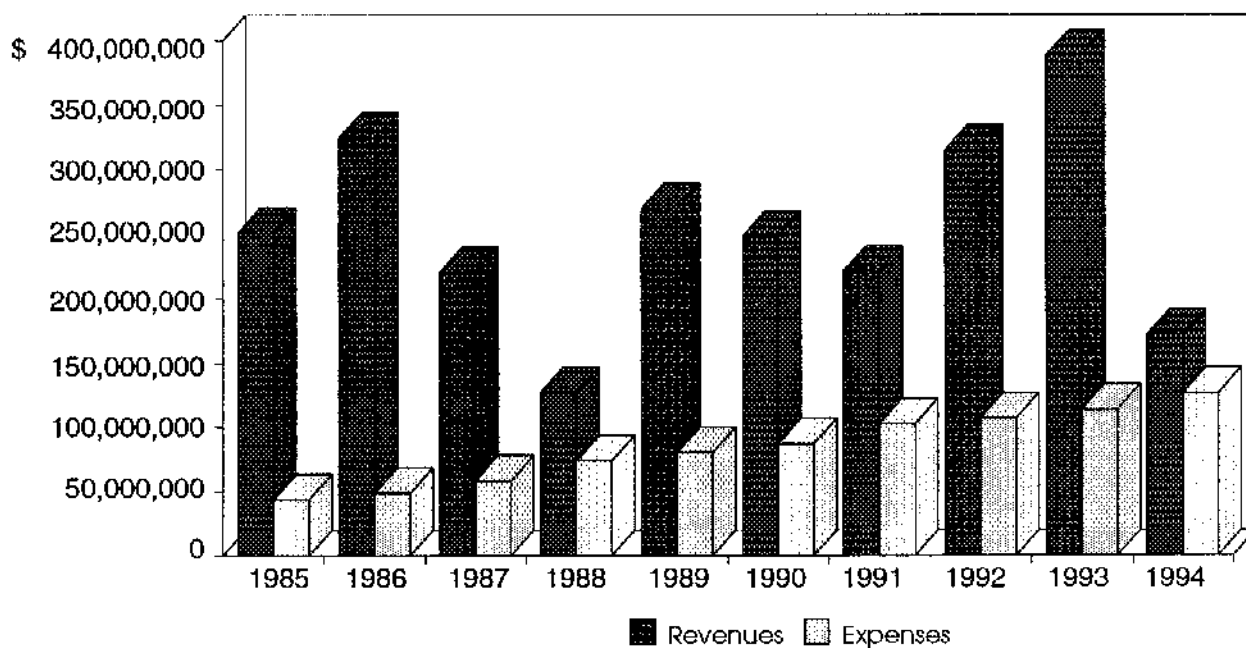
TRS Schedule of Average Benefit Payments New Retirees							
	Years of Credited Service						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
Period 7/1/92 - 6/30/93: Average Monthly Benefit*	\$ 408	\$1,002	\$1,015	\$1,561	\$2,258	\$3,090	\$3,043
Number of Active Retirants	7	17	23	9	62	37	10
Period 7/1/91 - 6/30/92: Average Monthly Benefit	\$ 819	\$1,205	\$1,941	\$2,256	\$2,290	\$3,159	\$3,930
Number of Active Retirants	4	27	25	17	38	8	1
Period 7/1/90 - 6/30/91: Average Monthly Benefit	\$ 949	\$1,093	\$1,689	\$2,085	\$2,540	\$2,944	\$4,173
Number of Active Retirants	14	53	95	155	160	37	5
Period 7/1/89 - 6/30/90: Average Monthly Benefit	\$1,161	\$1,215	\$1,551	\$2,295	\$2,394	\$3,852	\$3,733
Number of Active Retirants	6	36	33	70	55	6	2
Period 7/1/88 - 6/30/89: Average Monthly Benefit	\$1,174	\$1,327	\$1,491	\$2,249	\$2,312	\$2,817	\$ -
Number of Active Retirants	3	33	33	61	68	3	-

\*"Average Monthly Benefit" included post-retirement pension adjustments and cost-of-living increases.

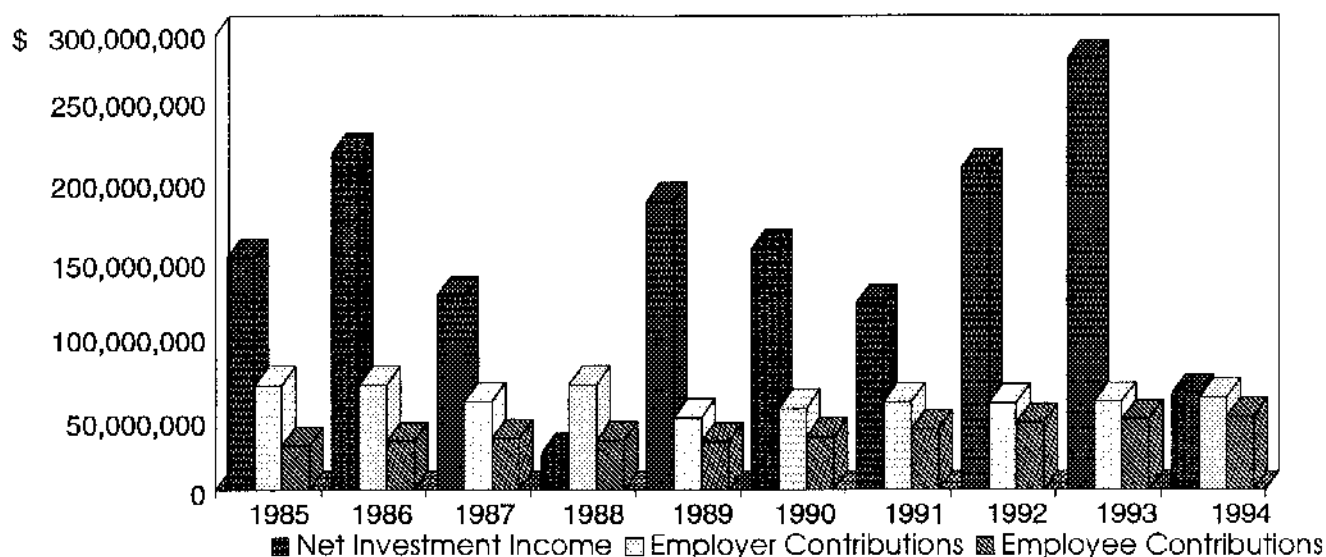
# **TEACHERS' RETIREMENT SYSTEM 10-YEAR COMPARISON OF VALUATION ASSETS AND ACCRUED LIABILITIES**



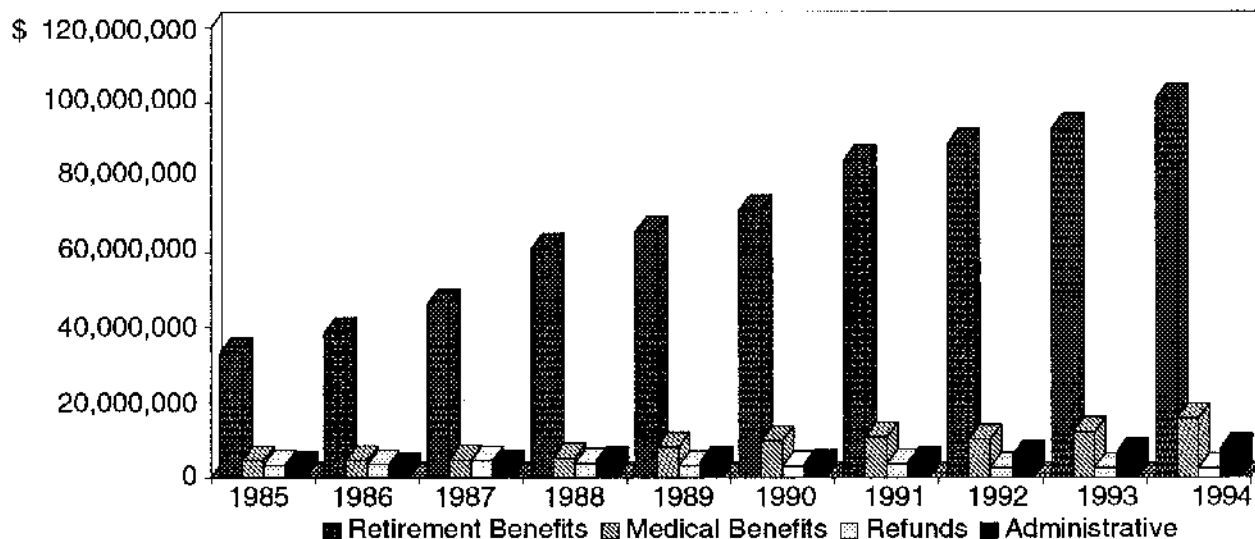
# **TEACHERS' RETIREMENT SYSTEM 10-YEAR COMPARISON OF REVENUES AND EXPENSES**



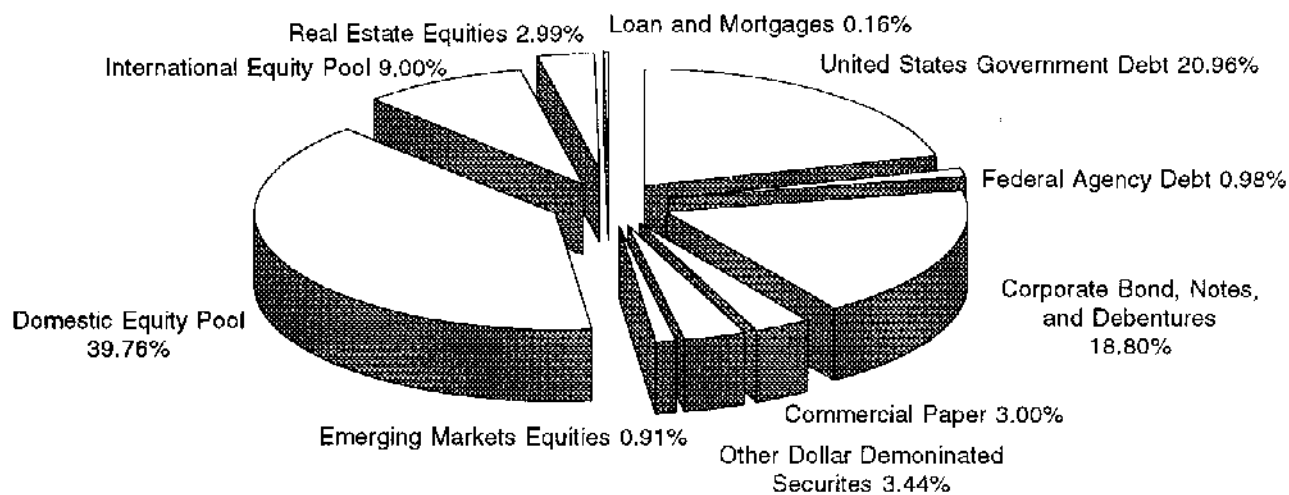
### TEACHERS' RETIREMENT SYSTEM 10-YEAR BREAKDOWN OF REVENUES BY SOURCE



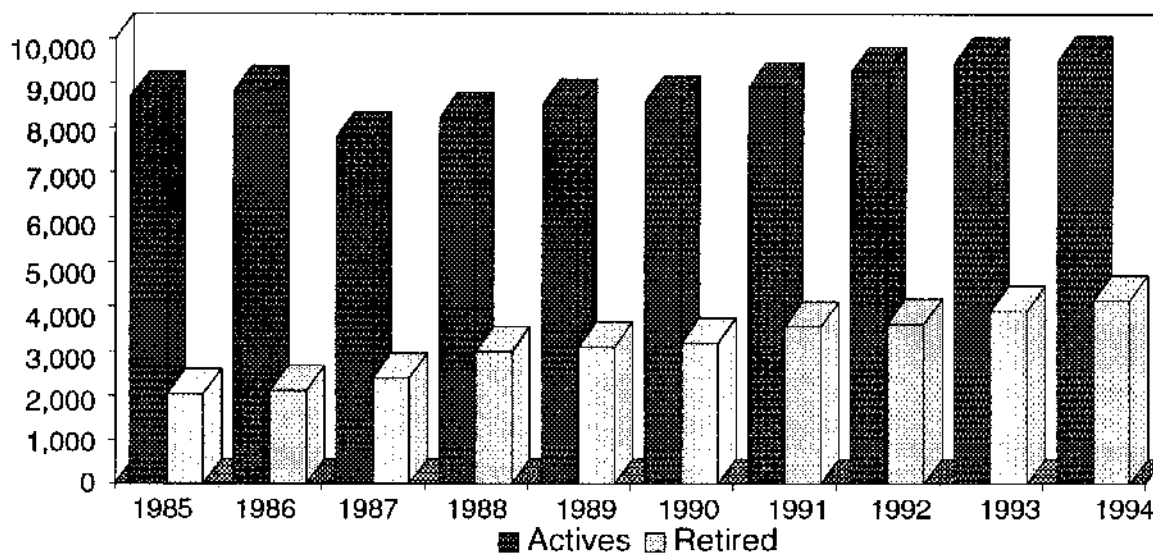
### TEACHERS' RETIREMENT SYSTEM 10-YEAR BREAKDOWN OF EXPENSES BY TYPE



# **TEACHERS' RETIREMENT SYSTEM INVESTMENT PORTFOLIO** Year Ended June 30, 1994



## **TEACHERS' RETIREMENT SYSTEM 10-YEAR COMPARISON OF ACTIVES AND RETIREES**



<b>TRS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES</b> <b>FISCAL YEAR 1994</b>
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Employer	Contribution Percentage
Adak Region School District	12.00%
Alaska Department of Education	
Alaska Gateway School District	
Alaska, University of	
Alaska Geophysical Institute, University of	
Alaska State Legislature	
Aleutian Region School District	S
Aleutians East Borough School District	A
Anchorage School District	M
Annette Island School District	E
Bering Strait School District	F
Bristol Bay Borough School District	O
	R
Chatham School District	
Chugach School District	A
Copper River School District	L
Cordova Public Schools	L
Craig City School District	
	E
Delta-Greely School District	M
Denali Borough School District	P
Dillingham City School District	L
	O
	Y
Fairbanks North Star Borough School District	E
	R
Galena City School District	S
Haines Borough School District	
Hoonah City School District	
Hydaburg School District	
Iditarod Area School District	
Juneau School District, City and Borough of	
Kake City School District	
Kashunamuit School District	
Kenai Peninsula Borough School District	
Ketchikan Gateway Borough School District	
Klawock City School District	
Kodiak Island Borough School District	
Kuspuk School District	

<b>TRS PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES</b> <b>FISCAL YEAR 1994</b>
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Employer (continued)	Contribution Percentage
Lake and Peninsula School District	12.00%
Lower Kuskokwim School District	
Lower Yukon School District	
Matanuska-Susitna Borough School District	
National Education Association - Alaska	S A M E
Nenana Public Schools	
Nome Public School	
North Slope Borough School District	
Northwest Arctic Borough School District	F O R
Pelican School District	
Petersburg Public Schools	
Pribilof School District	
Saint Mary's School District	A L L
Sitka School District	
Skagway City School District	
Southeast Island School District	
Southeast Regional Resource Center	E M P L O Y E R S
Southwest Region Schools	
Special Education Service Agency	
Tanana City School District	
Unalaska School District	
Valdez City Schools	
Wrangell Public Schools	
Yakutat City School District	
Yukon Flats School District	
Yukon-Koyukuk School District	
Yupit School District	

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**TRS**

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## **PLAN SUMMARY**



## STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

### Plan Summary

On July 1, 1955, the Alaska State Legislature established the Teachers' Retirement System (TRS). Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990. The Commissioner of the Department of Administration is responsible for administering the System. The Teachers' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the System. The Alaska State Pension Investment Board is responsible for managing and investing TRS funds. The Attorney General represents the system in legal proceedings.

#### Employers

There are 61 employers participating in TRS.

#### Members

TRS membership is mandatory for:

- a. Full-time and part-time teachers, school nurses, and other employees in positions requiring teaching certificates;
- b. The Commissioner and certificated supervisors employed by the Alaska Department of Education in permanent positions requiring teaching certificates;
- c. University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing (employees participating in the University of Alaska's Optional Retirement Plan are not covered by the TRS); and
- d. Members on approved sabbatical leave under AS 14.20.310.

#### Credited Service

Members receive one year of credit if they work at least 172 days during a school year. Members working less than 172 days receive fractional credit based on the number of days worked. Part-time members receive half-time credit for each day worked.

Members may claim other types of service, including outside teaching, military, Alaska Bureau of Indian Affairs, Alaska Territory, elected official, leave of absence without pay, unused sick leave, and service that was not creditable at the time it was performed.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

#### Employer Contributions

TRS employers contribute the amount required, in addition to members' contributions, to fund TRS benefits.

#### Member Contributions

Members are required to contribute 8.65% of their base salary. Members' contributions are deducted from gross wages before federal income taxes are withheld. Members hired before July 1, 1982, who

(Continued)

## STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

### Plan Summary

participate in the supplemental contributions provision are required to contribute an additional 1% of their base salary (see *Death Benefit* below). Member contributions are required for most types of claimed service. Members' contributions earn 4.5% interest, compounded annually on June 30.

Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies and valid qualified domestic relations orders.

Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until they are paid in full or the member retires.

#### Retirement Benefit

The normal benefit is calculated by multiplying the member's average base salary (ABS) times total TRS service times the appropriate percentage multiplier. The ABS is determined by averaging the three highest, annual base salaries. The TRS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers are 2% for the first 20 years of service and 2.5% for all remaining service, except that service before July 1, 1990 is calculated at 2%.

Members are eligible for normal retirement at age 60 and early retirement at age 55 (if first hired

before July 1, 1990, normal retirement is age 55 and early retirement is age 50). To retire members must have:

- a. Eight years of membership service;
- b. 15 years of TRS service, if the last five years are membership service and the member was first hired before July 1, 1975;
- c. Five years of membership service and three years of Alaska Bureau of Indian Affairs (BIA) service;
- d. 12 school years in each of which the member earned either part-time or full-time membership service; or
- e. Two years of membership service if the member is vested in the Public Employees' Retirement System.

Members may also retire at any age with:

- a. 25 years of service if the last five years are membership service;
- b. 20 years of membership service;
- c. 20 years of combined membership and Alaska BIA service if the last five years are membership service; or
- d. 20 years of combined part-time and full-time membership service.

Members may choose between the normal, early, and joint and survivor (50%, 66-2/3% or 75%) options. Actuarial reductions to benefits are required under all options, except for normal retirement.

(Continued)

## STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

### Plan Summary

Retirement benefits will be actuarially reduced when there is an indebtedness remaining at retirement. However, TRS service used to satisfy the minimum service requirements for retirement must be paid in full.

#### Reemployment of Retired Member

Retirement benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

Members who retire under the Retirement Incentive Programs (RIPs) who return to employment under the TRS, Public Employees' Retirement System (PERS), or the University of Alaska's Optional Retirement Plan will:

- a. Forfeit the three years of incentive credits that they received.
- b. Owe the TRS 110% of the benefits that they received under the RIP, including any costs for health insurance, and excluding amounts that they paid to participate.
- c. Be charged 7% interest on amounts owed from the date of reemployment until the indebtedness is paid in full or they retire again. Any balance remaining at retirement will result in an actuarial reduction to the member's future benefits.

#### Disability Benefit

TRS disability benefits are paid until the member dies, recovers or becomes eligible for normal retirement. Disabled members continue to earn TRS service until their normal retirement date.

When eligible for normal retirement, disability benefits terminate and the member is appointed to normal retirement.

Monthly benefits are equal to 50% of the member's base salary on the date of disability. An additional 10% is paid for each dependent child up to a maximum of 40%.

#### Death Benefit

When a member dies, benefits are payable under the occupational or nonoccupational death provisions, unless a survivor's allowance or spouse's pension is payable under the supplemental contributions provision.

*Occupational Death.* When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension is paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's average salary on the date of death or disability and service including service that accrues from the date of the member's death or disability to the normal retirement date.

*Nonoccupational Death.* When an active, vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum payment. The monthly benefit is calculated on the member's average salary and TRS service at the time of death.

Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which

(Continued)

## STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

### Plan Summary

includes mandatory contributions, indebtedness payments, and interest earned. The beneficiary also receives \$1,000, plus \$100 for each year of membership service (not to exceed \$3,000), if the member has more than one year of TRS service, but less than eight years. An additional \$500 may be payable if the member is survived by dependent children.

**Death After Retirement.** When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives a continuing lifetime monthly benefit. If benefits are payable under the supplemental contributions provision, the eligible spouse or dependent children will receive a spouse's pension or survivor's allowance.

**Supplemental Contributions Provisions.** A survivor's allowance or spouse's pension is payable when a member dies while (a) in active service or disabled after making supplemental contributions for at least one year, or (b) retired or deferred vested after making supplemental contributions for at least five years.

If a member has dependent children, a survivor's allowance equal to 35% of the member's base salary at the time of death or disability will be paid the spouse. An additional 10% is paid for each dependent child up to a maximum of 40%. The survivor's allowance ceases and a spouse's pension becomes payable when there is no longer an eligible dependent child.

A spouse's pension will be paid to the spouse if there are no dependent children. The pension equals 50% of the retirement benefit that the member was receiving or would have received if retired

at the time of death. The pension ceases when the spouse dies.

### Post Retirement Pension Adjustment

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- a. 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability, or
- b. 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

### Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive the Alaska Cost of Living Allowance (COLA), which is equal to 10% of their base benefits. The following benefit recipients are eligible:

- a. Members who were first hired under the TRS before July 1, 1990, and their survivors;
- b. Members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and
- c. All disabled members.